



Newfoundland and Labrador

Budget 1991

Presented by
Honourable Hubert Kitchen
Minister of Finance

1991 BUDGET

NEWFOUNDLAND AND LABRADOR

PRESENTED BY
HONOURABLE HUBERT KITCHEN
MINISTER OF FINANCE



AT THE
THIRD SESSION OF THE FORTY FIRST GENERAL ASSEMBLY
OF THE HOUSE OF ASSEMBLY

THURSDAY, MARCH 7, 1991

TABLE OF CONTENTS

	Page
HIGHLIGHTS	
INTRODUCTION	1
ECONOMIC FRAMEWORK	2
Economic Review of 1990	2
Economic Outlook and Prospects	3
FISCAL FRAMEWORK	6
Cost of Government	6
Debt and Deficits	7
Taxation	9
Transfers	10
FINANCIAL POSITION	10
Financial Review of 1990-91	10
Financial Outlook for 1991-92	12
BUDGET STRATEGY	13
REVENUE MEASURES	13
Budget Initiatives	13
Tax Reform	14
EXPENDITURE MEASURES	15
Public Sector Salaries	16
Pensions	17
Economic Development and Resource Initiatives	17
Economic Development	17
Fishery	18

Mines and Energy	19
Forestry	19
Environment	19
Transportation	19
Social Policy Initiatives	20
Health Care	20
Education	22
Social Services	23
Justice	24
Expenditure Summary	25
CONCLUSION	25
Appendix A - SUPPLEMENTARY EXPENDITURE DETAILS	
Appendix B - SUPPLEMENTARY REVENUE DETAILS	
Appendix C - TAX REFORM	
Appendix D - FEDERAL-PROVINCIAL FISCAL TRANSFERS	
STATEMENTS	
EXHIBITS	

BUDGET HIGHLIGHTS - 1991

- The main elements of the 1991-92 Budget Strategy are as follows:
 - A reduction in the projected deficit for 1991-92 from an estimated \$200 million to \$53.8 million;
 - Government wide reduction in salary and operating budgets;
 - Frozen or reduced budgets for most Government funded agencies;
 - Reduction or elimination of a range of programs to enable Government to partially finance continued growth of its essential social programs;
 - Defer negotiated salary increases for all bargaining groups during fiscal year 1991-92 for a one-year period. A similar one-year wage freeze will apply to Members of the House of Assembly, Cabinet Ministers, executives, managers and non-unionized employees;
 - Ten percent reduction in executive and management positions;
 - Lay off of 1,300 permanent, 350 part-time and 350 seasonal employees spread throughout the entire public sector;
 - Elimination of a further 500 vacant positions in Government Departments;
 - Continuation of the Pay Equity process with the deferment of the effective date from April 1, 1988 to a current date. Government is committed to phasing in the pay equity wage adjustments over a maximum five year period beginning at the time final pay equity wage adjustments are determined;
 - Discontinue MCP coverage of routine dental surgery in hospitals;
 - Basic vision assessment under the optometry and medicare programs will be eliminated;
 - A long range plan to rationalize health care services, resulting in 360 acute care beds being closed and the conversion of a number of underutilized acute care facilities into community health care centres. All nursing home beds will remain open and an additional 78 long term care beds will be funded;
 - Per capita student grants and school tax equalization grants to school boards are frozen; and
 - Government will be providing operating grants totalling \$175,528,900 to MUN, post secondary institutes and community colleges.
- Government and its agencies are providing significant allocations for capital projects as follows:
 - Funding of \$54,000,000 is provided for capital construction in the education system;
 - Funding of \$25,000,000 is provided for capital improvements in the health care system;
 - Approximately \$106,000,000 will be earmarked for road construction;
 - An estimated \$22,000,000 is to be expended on public building projects;
 - Funding of \$31,500,000 is provided for the Marystown Shipyard enhancement under the Offshore Development Fund;
 - Funding of \$53,890,000 is provided for Hibernia GBS site construction under the Offshore Development Fund;
 - Newfoundland and Labrador Housing Corporation has budgeted \$104,300,000 for its capital program;
 - Newfoundland and Labrador Hydro expects to spend \$70,000,000, inclusive of transmission and system support expenditures;
 - Funding of \$200,000 is provided towards the construction of the new day care centre at MUN;
 - No funding is provided for the construction of the Fogo Island icebreaker ferry and associated terminals; and
 - Reduced funding levels are provided for Fisheries Loan Board and Farm Development Loan Board initiatives.

BUDGET HIGHLIGHTS - 1991 (Continued)

- Limited new funding has been provided for high priority economic and social programs:
 - Funding for the Enterprise Newfoundland and Labrador Corporation has been increased to \$44,000,000;
 - Additional funding has been provided for resource development activities under various cost shared agreements with the Federal Government;
 - Effective November 1, 1991, a \$50 per month fuel allowance for the months November to April for social assistance recipients living on the island who maintain households and do not have heat included in the cost of rent;
 - A \$55 per month social assistance supplement for qualifying single parents; and
 - Increased funding for home support services and community-based services.
- Revenue measures contained in the Budget are as listed below. A number of fees and licences changes will simplify the system for users. The Budget contains no new taxes:
 - Tobacco tax will increase by 1.5 cents to 6.78 cents per cigarette, with a concurrent increase in the rate charged on fine cut tobacco of one cent to 4.52 cents per gram, effective midnight, to generate an additional \$8,500,000;
 - Newfoundland Liquor Corporation will increase its payment to Government by \$500,000;
 - The rates of fuel tax will be fixed at the current levels of 13.7 cents per litre for gasoline and 15.6 cents per litre for diesel to provide more certainty and stability for Government and consumers;
 - Rabbit and partridge licences will be combined and a free small game snaring licence will be provided to persons 15 years of age and under;
 - Motor carrier fees are being eliminated concurrent with adjustments to motor vehicle registration fees;
 - Bonding of sellers under The Retail Sales Tax Act will be eliminated, effective immediately, except for cases of serious non-compliance with tax legislation; and
 - Park fees will be increased and seniors charged. Weekly and seasonal park permits will be eliminated.
- The Budget outlines a total spending program as follows:
 - Total gross current and capital account spending is estimated to be \$3,514,010,300;
 - Government's gross current account expenditures are forecast to be \$3,096,041,000 versus \$2,995,724,000 in 1990-91. Net current account requirements are projected to be \$53,790,000 versus \$117,218,000 in 1990-91;
 - Government's gross capital account program is forecast to be \$417,969,000 versus \$357,324,000 in 1990-91. Net capital requirements are projected to be \$241,317,000 versus \$259,772,000 in 1990-91; and
 - Government's net budgetary requirement will be \$295,107,000. Debt retirement requirements are \$279,094,000, thus necessitating a planned borrowing requirement of \$574,201,000.

INTRODUCTION

Mr. Speaker, today I am pleased to present to this Honourable House the third Budget of this Administration.

Mr. Speaker, this is a severe Budget. It is, however, realistic and responsible, a Budget made necessary by the difficult financial and economic circumstances facing the Government and people of this Province.

The costs of governing have escalated dramatically in recent years. Transfer payments are being seriously restricted by the financial problems of the Federal Government and by a national recession. The current economic downturn is limiting growth in our tax revenues. We face today a financial crisis which, if left unchecked, would impair permanently our ability to maintain public services at acceptable levels.

Perhaps the underlying reason for the financial crisis facing this and other governments in Canada is the expectations of government that almost everyone seems to have. The numbers of public employees and their benefits continue to rise. Businesses, large and small, look to government for financing and tax concessions, and have been encouraged to do so by government. In this Province, whole industries pay no retail sales tax, including companies involved in the Hibernia project. Some industries pay no gasoline tax, no payroll tax. Worthy causes pressure government for core funding, for increased grants. It seems that many increasingly want more from government without considering how the costs will be met.

Mr. Speaker, government is but one's neighbours. Every tax concession, every grant, every improvement in benefits, every increase in government expenditure will cause either taxes to increase, other citizens' benefits to be reduced, or the people collectively to go deeper into debt. It is not solely that our expectations of government are too high, but also that governments have not had the political courage to restrict current expenditures to the level of current revenues. Governments in Canada, including Newfoundland, have been living beyond their means and have allowed the public debt to increase year after year, rather than face the people with the grim reality that every increase in expenditure must ultimately be met by increased revenue from taxes.

Economic recovery will begin in this Province in 1991. But Government must not repeat the mistakes of the 1980s. During those years of economic expansion, when Government should have been eliminating its deficit financing to enable it to cope with future eventualities, it failed to address adequately the fundamental structural problems, and instead budgeted for persistent deficits. It allowed the debt to grow, and the Province's credit rating to be reduced. Now, this Government is forced, at a time when the economy is in recession, to make the necessary adjustments to the machinery of government.

Mr. Speaker, this Budget contains the measures required to help secure our future financial integrity, while financing a public administration that is both compatible with our means and capable of providing required public services.

ECONOMIC FRAMEWORK

Mr. Speaker, Government's ability to provide services to its citizens is largely dependent upon the performance of the provincial and national economies.

The Canadian economy is currently mired in recession, a recession which is likely to continue well into 1991. High interest rates have discouraged business investment, consumer spending, and residential construction. Over the past five years, the Canadian dollar has appreciated by more than 20 percent against its American counterpart, restraining growth in our exports and weakening our export-oriented resource industries. Canada is experiencing industrial adjustments as a result of the Canada-United States Free Trade Agreement, and the increasing globalization of the economy. The United States, the Province's main export market, is experiencing a mild recession which is expected to last until the second or third quarter of 1991.

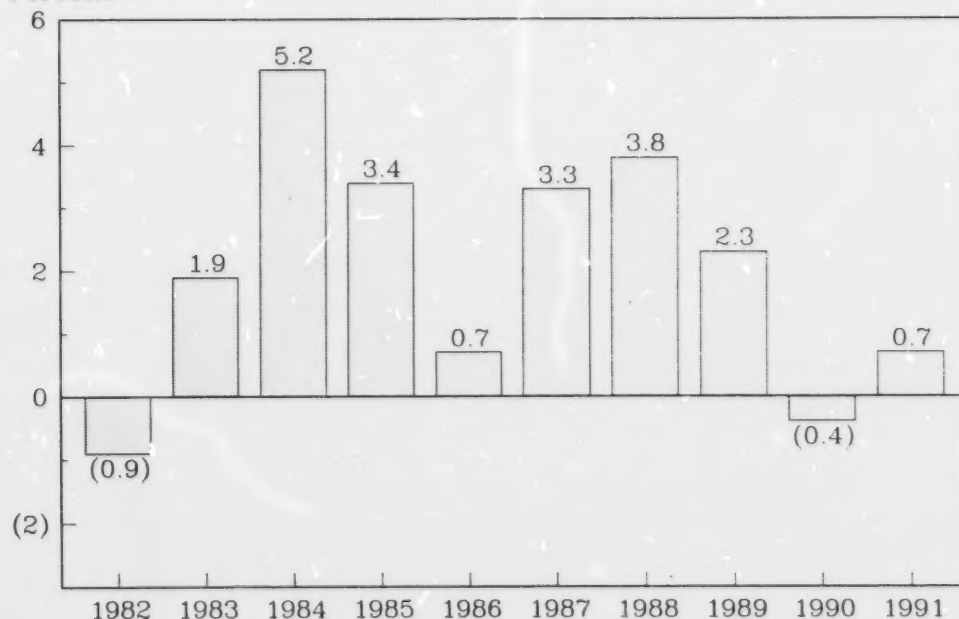
Economic Review of 1990

Mr. Speaker, I now will review the economic events of the past year.

After several years of strong growth, provincial gross domestic product (GDP) decreased by 0.4 percent in 1990, after adjusting for inflation. The decline was most evident in our goods producing industries.

Real GDP — Newfoundland

Percent



The total value of shipments by the mining industry was 3.9 percent lower in 1990 than in the previous year. Iron ore shipments declined in quantity by 3.4 percent and in value by 3.7 percent. Mining operations were closed in Daniel's Harbour and St. Lawrence in 1990 resulting in the loss of 260 jobs. The level of mineral exploration in the Province also declined.

The volume of newsprint shipments from the Province decreased by 4.2 percent, slightly below the national decline. The value of shipments also was affected by lower transaction prices and the higher Canadian dollar.

Business and residential construction both declined during 1990. The number of housing starts decreased by 291 units, or 8.2 percent, from 1989.

The fishing industry continued to be affected by groundfish quota reductions. The volume of fish landings declined by 11.2 percent and the value by eight percent.

The weak performance in the goods sector was partly offset by real growth in the service sector of just below one percent. Higher interest rates resulted in constrained consumer spending, particularly on high-priced items sensitive to borrowing costs. For the first time since 1982, the Province experienced a decline in the real value of retail trade of 1.2 percent. Personal income grew in real terms by 1.7 percent, the lowest rate since 1984. The Province's inflation rate of 4.3 percent was again lower than the national rate.

Total employment in the Province remained unchanged during 1990. Gains in service sector employment were offset by declines in the goods producing sector. Continued growth in the labour force in the absence of employment growth caused the unemployment rate to rise by 1.3 percentage points to 17.1 percent in 1990.

Mr. Speaker, 1990 also heralded a very positive development in our economic prospects. After years of negotiation, and seemingly endless delays, an agreement was reached in September to develop the \$8.5 billion Hibernia project.

Economic Outlook and Prospects

Mr. Speaker, turning now to the year ahead, Newfoundland's economic growth of 0.7 percent in 1991 will be matched by that of only one other province, Prince Edward Island. Most private sector forecasters are predicting even stronger growth for Newfoundland. Business activity will be stimulated by lower interest rates.

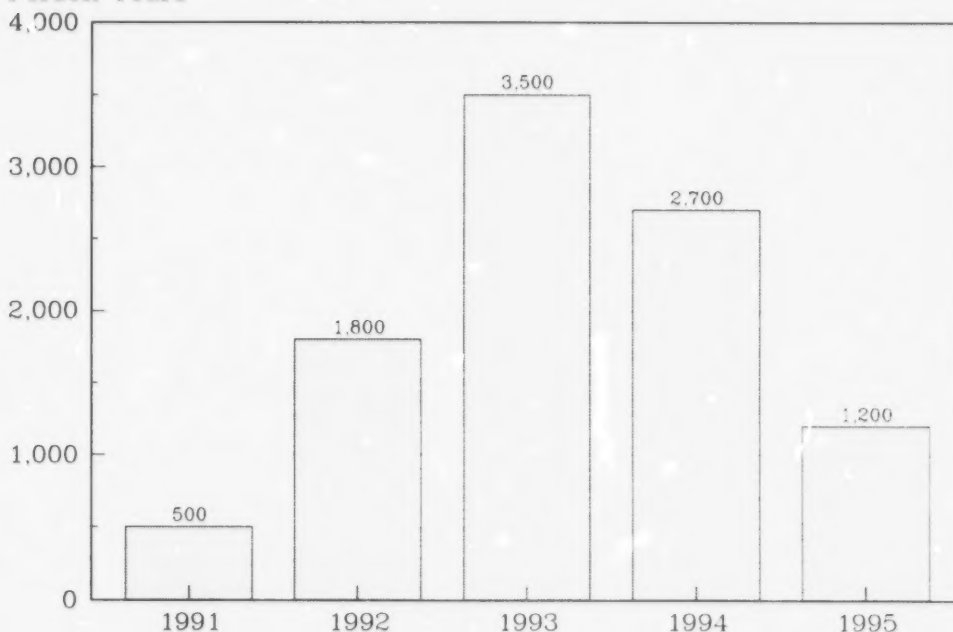
The Canadian economy is expected to decline by one percent, while in the United States real output will slow to about 0.5 percent in 1991. Inflation is forecast to increase to 5.7 percent in the Province, compared with six percent nationally.

Newfoundland's economic growth in 1991 will be bolstered by the Hibernia project. Contracts worth \$1.8 billion already have been awarded. Work has begun on detailed engineering and preparation of the construction site at Bull Arm. The main beneficiary is the construction industry, which is expected to grow by about nine percent, after adjusting for inflation. Direct employment on the project in the

Province during January was over 300 persons, and will increase significantly for the next few years. Total capital expenditures of just under \$300 million are anticipated for the year.

Hibernia Direct Employment in Newfoundland

Person Years



The benefits of Hibernia and subsequent projects will not be restricted to Newfoundland. The development of Newfoundland's offshore oil and gas resources will create considerable employment, as well as technical and commercial opportunities for Canadians in many regions of the country. It will have a significant positive impact on the federal treasury. Hibernia, Mr. Speaker, is truly a national project.

The oil industry is interested also in developing the Terra Nova oil field, located about 40 kilometres southeast of Hibernia. Government is currently generating a strategy to deal with this development, which has estimated recoverable reserves about 60 percent that of Hibernia.

Offshore drilling has declined in recent years, as a result of lower world oil prices and the removal of federal exploration incentives. Several significant geophysical programs were conducted on the Grand Banks last year, however, and it appears that at least two wells will be drilled this year. For the first time, industry has expressed a strong interest in the offshore area of western Newfoundland. Several exploration licences were issued which could lead to exploration activity during 1991.

Government is interested also in attracting oil and gas activity to the onshore area of western Newfoundland. New regulations have been approved to allow industry the opportunity to acquire petroleum rights and mount exploration programs.

Work already has commenced on construction of the Cow Head oil rig repair facility. This represents a significant opportunity for employment, and will help position Newfoundland at the center of offshore oil and gas expertise in Canada.

Government has been engaged, for more than a year, in discussions with Quebec, which hopefully will result in the development of the full hydroelectric potential of the Churchill River in Labrador. If agreement is reached, a decision to proceed with this development would lead to significant economic benefits for this Province.

In the forest industry, any gains are expected to be moderate as a result of tightening markets and a relatively strong Canadian dollar.

The fishing industry will experience a decrease in the quantity of landings again this year. Losses from cod quota reductions will more than offset increased landings of other species. However, the value of landings will increase because of higher prices in the United States market. Mr. Speaker, the real economic potential of our fishery cannot be realized until strong stock conservation measures, including a curb on foreign overfishing, result in the rebuilding of our key groundfish stocks.

The outlook for the mining industry has been dampened by the mine closures last year in St. Lawrence and Daniel's Harbour. As well, the asbestos mine in Baie Verte shut down in January of this year with the loss of 350 jobs. The value of mineral shipments, however, will increase by five percent based on the strength of the iron ore industry. Government will pursue with vigor the resumption of mining operations at St. Lawrence by a new operating company, as well as a possible asbestos disposal operation for Baie Verte.

Employment growth is expected to be marginal, but exceeded by growth in the labour force, resulting in a slightly higher unemployment rate in 1991.

Table 1

**PROVINCE OF NEWFOUNDLAND
MAIN ECONOMIC INDICATORS**

	(percentage change)	
	1990	1991
Gross Domestic Product		
-Nominal	5.2	5.2
-Real	-0.4	0.7
Personal Income		
- Nominal	6.1	5.4
- Real	1.7	-0.3
Personal Disposable Income		
-Nominal	5.6	5.2
-Real	1.2	-0.5
Retail Sales		
- Nominal	3.0	6.4
- Real	-1.2	0.7
Investment	2.3	13.6
Employment	0.0	0.5
Unemployment Rate (percent)	17.1	17.9
Consumer Price Index	4.3	5.7

FISCAL FRAMEWORK

Mr. Speaker, a fundamental obligation of the Province is to provide the basic public services for which it is responsible under the Constitution, particularly health, education and social welfare. Government's ability to provide these services is being seriously constrained by their high cost, by high rates of interest on the public debt, by a limited capacity to raise additional taxation revenues, and above all by the restraints in federal transfer payments.

Cost of Government

Since its election in 1989, this Government has taken steps to control the cost of government. We have reduced the number of departments from 23 to 14 along with much of the associated bureaucracy. We have reduced the size of the fleet of government vehicles by 15 percent to date, and have frozen the purchase of new ones. By March 31, we will have reduced the fleet by 28 percent. We have closed government offices which were no longer essential and reduced departmental operating budgets across the board. We have taken steps to address the unfunded pension liability. In the fall of 1990, all departments were directed to realize further savings through reducing overtime, reducing travel, leaving positions vacant and reducing purchases where possible. These are all solid management initiatives, but further action is required.

The fiscal problems facing governments today are not just the result of too many programs and services. The machinery used to provide these programs has become too large and too costly. The challenge for all governments is to find innovative and streamlined means of delivering programs and services and to discard those which are no longer a priority.

Mr. Speaker, we are faced also with cost pressures which are beyond our control. Our aging population increases the demands upon and necessitates altering the structure of our health and social systems, while the increasingly competitive and globalized nature of the economy requires that we have an educated and well trained workforce. We must have the flexibility to respond and adapt to these forces.

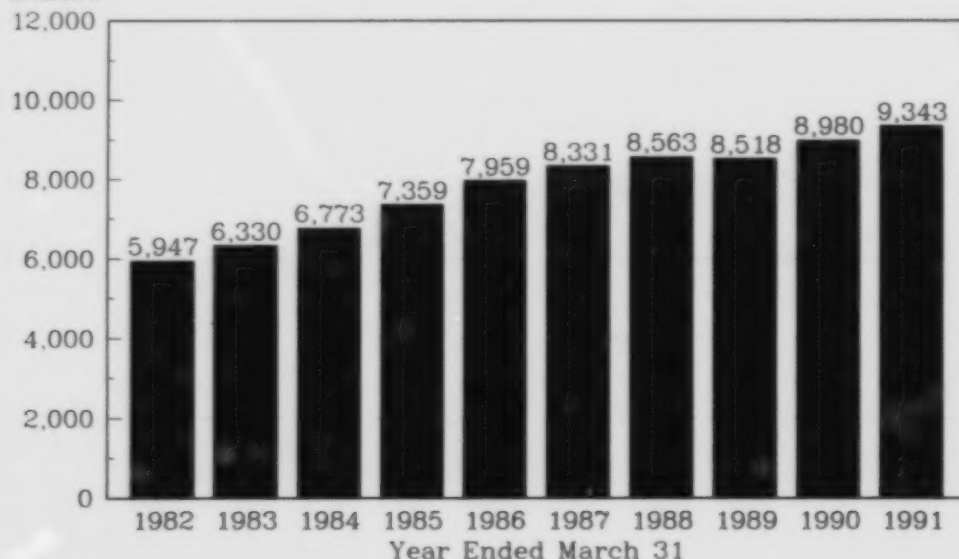
These challenges are national, and in no way unique to Newfoundland and Labrador. Neither are the solutions unique to this Province. Governments must strive for co-operative solutions, including improved financing mechanisms and enhanced delivery techniques.

Debt and Deficits

Mr. Speaker, the level of public debt in Newfoundland, excluding unfunded pension liability, has grown to the point where we now owe over \$9,000 for every man, woman and child in the Province. When the indebtedness of the Federal Government is added, that escalates to \$24,000 per person.

Net Public Sector Debt Per Capita Newfoundland

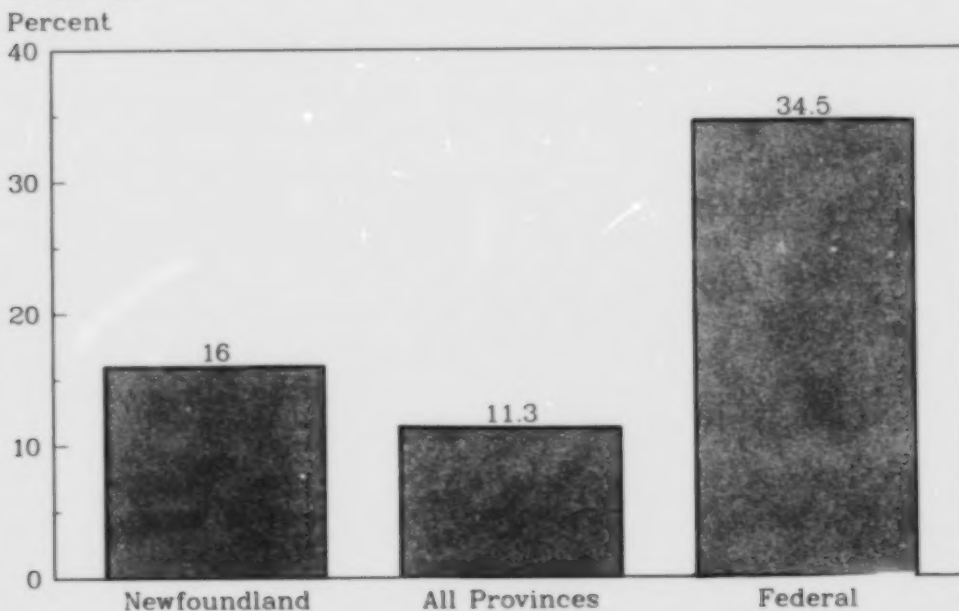
Dollars



The problems associated with excessive debt are many. The cost of servicing that debt has grown to unacceptable levels. Interest squeezes out spending on needed public services. It exceeds the total cost of operating nine of Government's 14 departments. The \$528 million in interest payments which the Province must make this year would be sufficient to operate our entire hospital system.

Excessive debt constrains our economic growth, and requires us to have higher taxes. We will pay \$60 million more in interest this year than we collect from personal income tax. Excessive debt levels reduce our ability to counter the effects of downturns. Because of high debt levels, it is not judicious to spend our way out of the current recession.

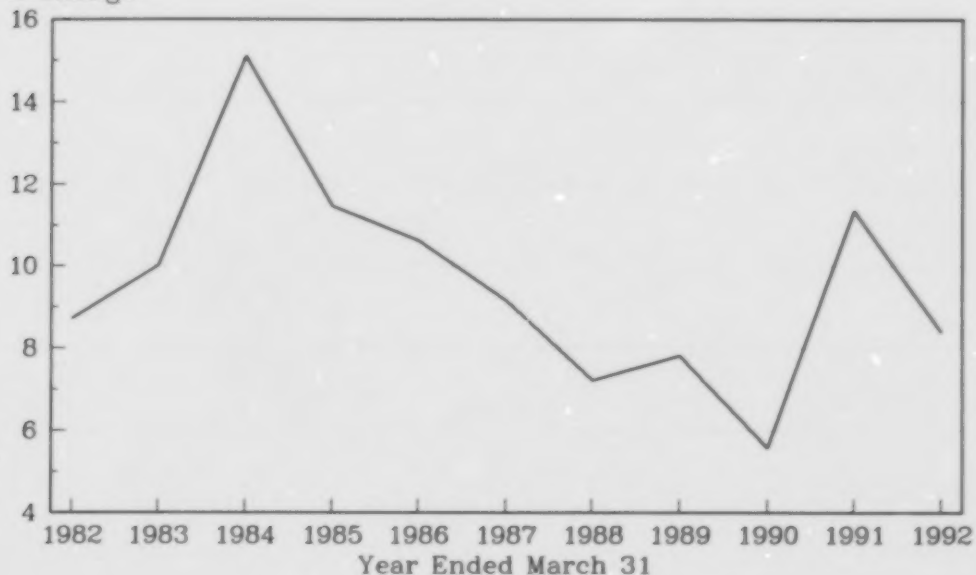
Interest Payments as a Percent of Revenue 1990-91



High levels of debt and debt servicing are the inevitable result of persistent deficit financing. Previous governments have failed to address adequately the Province's fundamental fiscal problems. The result has been a large accumulation of debt.

Budgetary Deficit as a Percent of Gross Expenditures — Newfoundland

% Change



Currently, Newfoundland has the lowest credit rating of any province in Canada. Our analysis, confirmed by our independent fiscal advisors, indicates that continued over-reliance on borrowing, or even on taxation, likely would lead to a further downgrading of our credit rating. A downgrading would place the Province in a B category, making it more difficult and more costly to borrow.

Mr. Speaker, we must reduce our reliance on deficit financing.

Taxation

In addition to our cost pressures and debt burden we also are constrained by high levels of taxation.

The financial flexibility of the Province to deal with the current situation is extremely limited. An over-reliance on taxation inhibits economic growth and competitiveness. While the relative Newfoundland total tax effort hovers around the national average, creating an illusion of provincial tax room, the federal foray into the traditionally provincial consumption tax domain through the goods and services tax (GST), has seriously interfered with our ability to generate additional revenues from our most productive tax area. No matter how many different taxes, there is only one taxpayer.

Many people regard the Hibernia development as the solution to Newfoundland's problems. The project unquestionably will bring real economic benefits in the form

of jobs and business opportunities. However, the financial benefits to the Government will not be large. There are significant costs to be incurred up front, yet royalties and corporate income tax from the project will not begin to flow to the provincial treasury until late in this decade. When they do, it is likely that they will be largely offset by equalization losses. The Hibernia project will not eliminate the pressure on Government's financial situation.

Transfers

The lack of provincial tax room is compounded by the continuing and substantial restraint efforts of the Federal Government. While control of the national debt is a concern of all governments, federal restraint is exacting an especially heavy toll on provinces whose financial viability is so closely tied to transfer payments. Equalization and Established Programs Financing (EPF) payments contribute almost one-half of this Province's current account revenues. The two-year freeze of the EPF transfer announced in the 1990 Federal Budget will cost the Province an estimated \$19 million in 1990-91 and \$34 million in 1991-92. In the recent Federal Budget, the freeze was extended a further three years. The freeze plus other federal restraints to EPF introduced since 1982 will have cost Newfoundland about \$600 million by the end of next year, and in 1991-92 alone approximately \$145 million.

Since its activation just one year ago, the ceiling on equalization payments has reduced entitlements for fiscal years 1988-89 to 1990-91 by more than \$150 million. In 1991-92, the ceiling will reduce equalization entitlements by an estimated \$35 million. The existence of that ceiling, Mr. Speaker, seriously erodes the constitutional commitment to the principle of equalization and has contributed substantially to the Province's deficit problem.

Indeed, by the end of this coming year, adjustments to the equalization and EPF programs enacted since 1982, will have reduced estimated cash transfers to this Province by more than three-quarters of a billion dollars.

Federal transfer restraint shifts a larger share of the financial burden to the provinces. Unless provinces allow their deficits to rise, they must respond with tax increases or expenditure cutbacks. The less affluent provinces do not have the same capacity to generate tax revenue as the more affluent provinces. The Equalization Program is designed to balance this capacity. This, unfortunately, is precluded by the ceiling.

FINANCIAL POSITION

Financial Review of 1990-91

Mr. Speaker, we are determined to be fiscally responsible and to build national and international confidence in the financial integrity of the Province. In our first two budgets, we strove to achieve a balanced current account, along with a reasonable level of capital expenditures. To do this, we introduced expenditure controls and

increased taxes. Shortly after our 1990 Budget, we were informed that re-estimates of equalization payments would reduce federal transfers by over \$60 million this year. The recession that became obvious by the summer of 1990, caused our tax revenues to decline, and our expenditures to rise.

In September, the Premier detailed the deterioration in the Province's financial position. He indicated that the budgeted current account surplus of \$10.2 million would not be achieved, and instead would be replaced by a deficit of approximately \$120 million. Mr. Speaker, through effective financial management measures, we have been able to hold that line despite other increases in expenditures. The current account deficit will be \$117.2 million.

The present financial problems facing the Newfoundland Government are not unique. Most provincial governments find themselves in similar situations where reduced federal transfers, combined with the economic slowdown, have resulted in substantial revisions to their Budget projections for 1990-91.

Our capital account position was maintained at the budgeted level, resulting in a total budgetary requirement of \$377 million, or \$128.5 million higher than Budget.

Table 2

SUMMARY OF 1990-91 FINANCIAL PERFORMANCE

	(millions of dollars)		
	Budget 1990-91	Revised 1990-91	Variance
Current Account			
Gross Expenditure	2,951.8	2,995.7	43.9
Related Revenue	311.1	310.1	1.0
Net Expenditure	2,640.7	2,685.6	44.9
Provincial and Federal Revenues	2,650.9	2,568.4	82.5
Current Account Deficit /(Surplus)	(10.2)	117.2	127.4
Capital Account			
Gross Expenditure	367.5	357.3	10.2
Related Revenue	108.8	97.5	11.3
Net Expenditure	258.7	259.8	1.1
Total Budgetary Requirement	248.5	377.0	128.5
Debt Retirement			
Redemptions	180.9	174.0	6.9
Sinking Funds	64.9	63.9	1.0
Total Debt Retirement	245.8	237.9	7.9
Total Borrowing Requirement	494.3	614.9	120.6

We are faced with a very serious financial situation. The factors that caused this situation have not abated, and if left unchecked would have left us in an even more serious financial situation in 1991-92.

Financial Outlook for 1991-92

Mr. Speaker, earlier this year the Premier indicated that if we did not take strong corrective action, the current account deficit for the 1991-92 fiscal year would approach \$200 million. A significant part of the pressure we faced arose from the higher than expected public sector salary increases resulting from arbitration awards and negotiated wage settlements.

As a result of the measures in this Budget, the current account deficit will be contained at a level of \$53.8 million. Gross expenditures on capital account are to increase by \$60.7 million, to reach \$418 million in 1991. Related revenue will partially offset these expenditures leaving a net capital account requirement of \$241.3 million. This is down from \$259.8 million in 1990-91. The combined current and capital budgetary requirement will be \$295.1 million, over \$80 million less than the year just ending. Mr. Speaker, this reduction in our deficit is imperative if we are to maintain the Province's financial integrity.

Table 3

ESTIMATED BUDGETARY POSITION

(millions of dollars)

	Estimates 1991-92	Revised 1990-91
Current Account		
Gross Expenditure	3,096.0	2,995.7
Related Revenue	369.0	310.1
Net Expenditure	2,727.0	2,685.6
Provincial and Federal Revenues	2,673.2	2,568.4
Current Account Deficit	53.8	117.2
Capital Account		
Gross Expenditure	418.0	357.3
Related Revenue	176.7	97.5
Net Expenditure	241.3	259.8
Total Budgetary Requirement	295.1	377.0
Debt Retirement		
Redemptions	215.4	174.0
Sinking Funds	63.7	63.9
Total Debt Retirement	279.1	237.9
Total Borrowing Requirement	574.2	614.9

BUDGET STRATEGY

Mr. Speaker, clearly this is a difficult period for the Newfoundland economy and the Newfoundland Government. In preparing this Budget, we were faced with very difficult choices. The task was painful but the course was unavoidable. Our financial resources simply cannot maintain the status quo.

It became quite clear to Government early in this Budget process that the response required fundamental changes. A deleterious dependence on the two traditional options of tax increases and increased borrowings would have been required if we did not make the necessary expenditure changes. Only by significant reductions in our expenditures would we be able to put the Province's finances on a realistic and sustainable footing.

Mr. Speaker, the financial plan we are tabling today puts us on the path towards living within our means. It contains expenditure reductions that will bring the public service to a size that recognizes our limitations. It contains a small degree of tax increases. The remaining deficit, to be financed through increased borrowing, recognizes that the provincial economy is experiencing a recession, and upon recovery the task of eliminating the deficit should be more easily achievable.

REVENUE MEASURES

Mr. Speaker, although we are reviewing various aspects of the provincial tax regime in a broader context, Government feels it is neither desirable nor appropriate at this time to use the tax system in any significant way to address our fiscal problems. Revenue measures, therefore, have been kept to a minimum. Other more substantive changes to our tax regime, aimed at improving the efficiency and equity of our tax system rather than increasing tax revenues, will be considered later this year.

Budget Initiatives

Mr. Speaker, the tobacco tax rate in this Province has fallen behind that of all the other provinces with the exception of Ontario. Our tax rate is now more than 1.5 cents per cigarette below the rates in each of the Maritime Provinces. I am announcing today an increase in the tobacco tax of 1.5 cents per cigarette, with a concurrent increase in the rate charged on fine cut tobacco of one cent per gram effective midnight tonight. This measure will raise an additional \$8.5 million in 1991-92. This revenue projection assumes a 15 percent reduction in consumption resulting from this measure and the tax increase announced in the Federal Budget.

The Newfoundland Liquor Corporation has been instructed to increase its remittances to Government from \$80.0 million in 1990-91 to \$80.5 million in 1991-92. Because of declining consumption, a modest increase in Corporation markups will be required to achieve this revenue target.

Mr. Speaker, the desire for revenue stability has given us cause to re-examine the Province's gasoline tax regime. The existing ad valorem system sets the tax in

cents per litre at a specific percentage of the average retail price of the products. The recent oil price increases could have permitted provincial taxes to rise substantially, but in the interest of consumers, Government did not adjust its tax from November 1, 1990 to March 1, 1991. This decision kept pump prices as much as 2.5 cents per litre lower than they otherwise would have been. The volatility of oil prices has resulted in the need for more certainty and stability in fuel taxation for both Government and consumers.

Accordingly, I am announcing that effective immediately, Government will move to a fixed rate regime. The tax will be fixed for at least this year at the current rates of 13.7 cents per litre for gasoline and 15.6 cents per litre for diesel. As these rates are already in place, this measure will not result in any change to pump prices.

Mr. Speaker, the fees and licences structure of Government has developed in a piecemeal fashion. Government is reviewing all charges with a view to improving the fairness, simplicity and efficiency of the system, as well as eliminating any unnecessary burdens and inconveniences for businesses and individuals. Changes being announced at this time include the elimination of the annual fee imposed on each pump used to distribute petroleum, thereby reducing the burden on service stations and other petroleum vendors. Also, the application fee for moose licences will be discontinued, the rabbit and partridge licences will be combined, and for persons 15 years of age and under, a snaring licence will be provided free. This will remove many of the nuisances faced by individuals with regard to game licences. Commercial motor vehicle fees are being combined and other changes are being made to park fees and quarry rentals. Details of these measures, which have a net impact upon users of \$240,000 in 1991-92, are appended. Other improvements to the fee and licence system will be announced when our review is completed.

I am pleased also to announce a measure that will reduce the financial and administrative burden on new and small businesses. At present, sellers must provide Government with security, in the form of a bond, bank guarantee or cash equivalent, against any subsequent failure to comply with tax legislation. This is unfair to those businesses who act responsibly in discharging their tax obligations. Therefore, effective immediately, security will be required only in cases of serious non-compliance with tax legislation, relieving the vast majority of businesses in this Province of this unwarranted burden.

Tax Reform

Mr. Speaker, the most significant development in taxation over the past year was the implementation of the GST. In replacing the federal sales tax (FST) with the GST, the Federal Government moved from a narrowly based, high rate consumption tax to one with a broader base, and a lower rate. Quebec and Saskatchewan have announced their decision to harmonize their sales tax with the GST. Broadening the sales tax base has been the trend throughout the industrialized world. Government has found certain features of the GST worthy of further examination in the context of our retail sales tax, our biggest tax source. Faced with the reality of the GST, Government is re-examining its sales tax system with the aim of reducing the complexities resulting from having two substantially different

systems. Already, we have announced our decision to harmonize with the GST in the areas of basic groceries, prepared meals, prescription drugs and medical devices.

The Province has received numerous representations from business and consumer groups encouraging us to harmonize the RST with the GST. While we have had preliminary discussions with the Government of Canada on this subject, we cannot afford full sales tax harmonization at this time, because the revenue obtained from base broadening would be much less than the cost of removing sales tax on business inputs. Full sales tax harmonization, despite its many attractive features, would result in at least a two percentage point increase in the Newfoundland rate, and this is unacceptable.

There is scope, however, to harmonize to a significant degree and lower the RST rate if we do not give full sales tax relief on business inputs. Government remains committed to either substantially reforming or abolishing the school tax system, and this will be part of our overall consideration. Other adjustments to personal and business taxes could be made to bring in a tax reform package that would result in a fairer and simpler tax system for individuals, and contribute to a positive business climate in this Province. This process would be facilitated if the Federal Government increased provincial personal income tax flexibility under the Canada-Newfoundland Tax Collection Agreement.

To facilitate and to encourage public input in the tax reform process, additional details pertaining to the tax reform options are appended. This public input, combined with detailed analysis of the fiscal, economic, sectoral and social effects of tax reform, will be used to determine the most appropriate reform package that might be implemented as early as January 1, 1992.

EXPENDITURE MEASURES

Mr. Speaker, the expenditure measures which I am announcing today are essential for the continued provision of quality public services to the residents of the Province.

In developing an expenditure plan for 1991-92 that would enable us to live within our necessary restraint targets, Government adopted a strategy whereby departments and agencies identify the impact of a frozen budget on their operations. The results of that process, which began last fall, are reflected in this Budget.

Our expenditure decisions can be grouped in three categories:

- (1) programs that are frozen for 1991-92;
- (2) programs that will be reduced or eliminated; and
- (3) programs that will be excluded from the freeze.

Government's detailed spending plans are provided in the Estimates being tabled with this Budget, and in the appended expenditure supplement.

Freezing departmental programs and operations can be achieved only by implementing efficiencies, including those affecting personnel.

Reducing and eliminating lower priority programs and services is essential if Government is to have the flexibility to fund those activities which must be allowed to grow. Restraint actions have been taken only after extensive deliberations and discussions with those departments and agencies directly affected.

Funding for individual programs and services has been allowed to grow only in cases where a frozen budget would have impeded the delivery of critical services or would have negatively affected the Province's participation in federal-provincial agreements. Some new funding has been provided for high priority economic and social development and environmental initiatives.

Public Sector Salaries

Reducing the current account deficit to just over \$50 million, when faced with major financial pressures, cannot be done without hardship. We have been forced to institute program reductions, with resultant layoffs of permanent, part-time and seasonal employees. It is expected that the layoff of permanent employees will number 1,300. In addition, there will be a reduction of 350 part-time employees and we will be hiring about 350 fewer seasonal employees. The reduction in permanent, part-time and seasonal employees will be spread through the public service, including 650 in government departments, 900 in health care, 350 in education and 100 others. Furthermore, up to 500 vacant positions will be eliminated, mostly in government departments. Executive and management positions will be reduced by 10 percent.

Mr. Speaker, we cannot think only as Government but also as an employer. These are very harsh measures for any employer to have to take, but, given the circumstances, we had no choice. The results were unavoidable. We realize the hardship these layoffs will mean to the many individuals and families affected.

Despite the measures taken to rationalize and to reduce program expenditures, despite the layoffs, government still was faced with the prospect of an unacceptably large current account deficit for 1991-92. Clearly, other measures were required.

Reluctantly, Government will impose, effective April 1, 1991, a one-year wage freeze throughout the provincial public sector covering all Crown corporations, agencies and boards, including Newfoundland and Labrador Hydro and Memorial University. The wage freeze applies to all unionized employees, managers, executives, cabinet ministers and Members of the House of Assembly.

Closely related to Government's ability to fund general salary increases is the matter of our ability to fund pay equity in the public sector. If Government funds the retroactive payments required under the current pay equity agreement in the health sector, it will have little choice but to close an even greater number of hospital beds resulting in substantially more lay-offs in the health sector.

Instead, Government has chosen to recognize the principle of pay equity, but will not make it retroactive. Government is committed to phasing in the pay equity adjustments over a maximum of five years beginning at the time final pay equity wage adjustments are determined.

Pensions

Last fall Government announced steps to correct the financial situation of the two pension plans covering government employees and members of the Royal Newfoundland Constabulary, firefighters and correctional officers. During this session the necessary legislative changes will be made to these plans. None of these changes involves indexing. Negotiations are currently under way with the Newfoundland Teachers Association with regard to changes to the Teachers' Pension Plan which will include steps to correct the financial deficiencies of that plan.

One of the main reasons for the erosion of the pension fund to the point where the unfunded liabilities have reached an estimated \$2.1 billion, was the practice of awarding cumulative ad hoc annual cost of living increases in pensions, increases which were not part of the pension plan, and the costs of which were not part of the contributions of either employees or employers. Government's pension plans, like almost all other pension plans except those in the federal public service and the public service in most provinces, do not provide for indexing or cost of living increases. Moreover, it is clearly unfair for Government to grant cost of living increases from general revenues to its pensioners and not grant similar benefits to other retired citizens. Consequently, there was no general increase in provincial pensions in 1990-91, and none is contemplated for 1991-92.

The Commission of Enquiry on Pensions recommended that all increases in pensions should be suspended at least until the funded ratio of the plans had reached 50 percent. Notwithstanding this recommendation, Government will, during the coming year, be studying the possibility of indexing its pensions, provided the cost is reasonable and shared equally by employer and employees. In this connection, we will be inviting all major employee and employer groups to work with us to see whether indexing programs can be designed to provide acceptable income protection at reasonable costs and, if so, whether the coverage can be extended to existing pensioners.

Economic Development and Resource Initiatives

Economic Development

Mr. Speaker, Government is committed to strengthening those activities which hold promise for long-term economic diversification. We are currently developing a comprehensive strategic economic development plan which will be the key policy guide for our future economic development.

At the same time, Government recognizes that it has to achieve economies in its economic planning and advisory services. As a result, Government will merge the

Economic Council of Newfoundland and Labrador with the Advisory Board of the Economic Recovery Commission, for savings exceeding \$200,000. Government has consolidated within Enterprise Newfoundland and Labrador Corporation, which reports to the Minister of Development, its programs for rural development and for the development of small businesses. This new Crown corporation will deliver a range of assistance programs designed to reach every region of the Province, through a network of five regional offices. Its 1991-92 budget has been increased to \$44 million.

Support for technology transfer and industrial innovation will be provided under the Offshore Development Fund, Offshore Technology Transfer Program and the Ocean Industries Subsidiary Agreement. In co-operation with the Canadian Space Agency, we will fund several initiatives by local companies under the Strategic Technologies for Automation and Robotics Program. Areas which hold considerable promise for technological development and subsequent business opportunities include aquaculture, environmental industries and biotechnology.

Funding is provided to meet our commitments under a third generation tourism and historic resources agreement, which we hope to sign with the Federal Government in the near future. Funding for tourism marketing has been increased, to reach potential tourists living outside our traditional markets in eastern Canada and the northeastern United States. Funds are provided for a new tourist chalet at Argentia and for the expansion of the Deer Lake chalet.

Fishery

Mr. Speaker, the fishing industry plays a critical role in our economy. Despite the current problems, Government recognizes that this industry holds considerable opportunity. The Province will continue to promote the realization of these opportunities through its own initiatives and in cooperation with the Government of Canada. Government is strengthening the Department of Fisheries.

In the coming year \$11.6 million is provided to support the ongoing development of the industry under both the Canada-Newfoundland Inshore Fisheries Agreement and the Comprehensive Labrador Agreement. Funding is provided to create a Resource Assessment Directorate which will give Government a better appreciation of all fisheries management issues. Funding is provided for a Labrador Fisheries Directorate to co-ordinate the overall activities of the Department of Fisheries in Labrador and to deal with the special development needs associated with the Labrador fishery.

Government is continuing with measures to ease the burden of the employment loss associated with the announced closures of four deep-sea processing plants. This year's Budget makes provision for final expenditures of \$7.7 million associated with the Fish Plant Worker Adjustment Program.

It is expected that with the downturn in the fishery, there will be less demand for assistance from the Fisheries Loan Board. We have budgeted to add \$11.4 million to the Fisheries Loan Board Fund, down \$3 million from last year.

Mines and Energy

Funding of \$2.5 million will be provided this year under the new \$17.5 million Federal-Provincial Agreement on Mineral Development to strengthen and diversify our mineral industries. In addition, the Province will spend in support of mineral development activities, over \$5 million.

Mr. Speaker, as a demonstration of our commitment to the development of our oil and gas industry, the Province and the Federal Government, through the Offshore Development Fund, will contribute to the Bull Arm construction project, \$54 million, and to the construction of the Cow Head oil rig repair facility, \$31.5 million.

Forestry

Government will maintain its focus on forest management operations through various federal-provincial and industry cost-shared programs.

A new forestry agreement with the Federal Government will provide funding for various forest management programs, including forest renewal, improvement and protection, as well as private woodlot management, research and development, silviculture and remote sensing technology. Over the five-year period of the agreement, this significant environmental and economic initiative will provide for expenditures of \$64.3 million, of which the Province will contribute \$19.3 million. This coming year, there will be spent under this agreement \$13.8 million.

Our system of stumpage rates will be reviewed with the aim of making modifications to encourage harvesting of previously under-utilized forest stands. The Junior Forest Warden Program will be combined with the 4-H program, resulting in savings to Government.

Environment

Mr. Speaker, we will fund a Round Table on the Environment and the Economy which will provide leadership in building consensus between all sectors of our society on the integration of environmental protection with economic development. Secretariat services for the Round Table will be provided by a new Policy and Planning Division to be established in the Department of Environment and Lands.

To clean up contaminated sites in the Province, thereby helping to preserve our relatively unspoiled environment, funding for a joint federal-provincial program is provided in the amount of \$2.5 million.

Transportation

Mr. Speaker, in an effort to ensure that we have an efficient and economical transportation system, next year will be one of the busiest on record for highway construction in this Province. Under federal-provincial cost shared programs and

the Newfoundland Transportation Initiative, funding will be provided for major new projects throughout the Province. This is in addition to the Provincial Road and Bridge Construction Program. Overall, Government expenditures on highway and bridge construction will be approximately \$106 million.

As part of Government's restraint effort, we have deferred the construction of the \$24 million icebreaker ferry at Marystown Shipyard for the Fogo service. The Department of Works, Services and Transportation also will implement changes in the operations of several intraprovincial ferry services to take effect later this year.

Social Policy Initiatives

Mr. Speaker, Government is committed to improving the health, education and social well-being of the population, however the size of our spending in these areas dictates that they must share the burden of restraint.

Health Care

In recent years, rapid changes have taken place in health care technologies and needs, changes which have had a significant impact upon the utilization of our health care facilities. To reflect these realities, we now must take the necessary steps to modify the roles and mandates of these facilities. These changes are consistent with the Department of Health's long-term strategy for the health care system.

The modifications contained in this Budget reflect fully the integrated and interdependent nature of the Province's health care system, extending from community services through to tertiary care institutions. The changes were developed after consultations with major health care organizations, and are consistent with the general recommendations of the 1984 Report of the Royal Commission on Hospital and Nursing Home Costs.

Utilization patterns in the Province's health care facilities have been impacted by improved transportation and communications links and changes in the technology of health care delivery. The availability of specialty services has increased through a network of district, regional and provincial hospitals. We are developing a system which looks at the Province as a whole, a system that maintains for everyone primary health care services within a reasonable distance, and a system which links services into a district and regional hospital network.

This strategy requires that changes be made in the roles and mandates of a number of health care facilities. This, combined with the Province's severe financial problems, will result in the closure of 360 acute care beds in hospitals throughout the Province. In addition, 78 acute care beds will be converted to provide high level long-term nursing care in recognition of the needs of the province's aging population. Financial restraint will need to be exercised in the 22 nursing homes, although no beds will be closed.

Hospitals at Bell Island, Bonavista, Springdale, Baie Verte, Port aux Basques and Bonne Bay will have their roles modified with greater emphasis on chronic care services. In Bonavista, for example, a 15 bed special care unit will be developed for patients suffering from Alzheimer's disease. All these facilities will continue to provide outpatient and diagnostic services and will have some acute care beds for short-term treatment. The Baie Verte facility will have to phase down for a period of time to permit the extensive renovations required to enable the facility to carry out its new role.

Brookfield Hospital will have its level of inpatient activity reduced while planning continues for an appropriate health facility to meet the needs of the Bonavista North area. Hospitals at Old Perlican, Placentia and Burgeo will be converted into community health centers with diagnostic services, outpatient services and some acute care beds for short-term treatment. Funding is provided to finalize planning and design work and commence construction of new multi-purpose health facilities for Burgeo and Port Saunders. The new facilities will provide chronic care services, outpatient services and some acute care beds for short-term treatment.

The community health center at St. Lawrence will have its hours of operation reduced. After a thorough review of medical needs and now that the hospital at Clarenville is fully operational, it has been decided to close the medical clinic at Come By Chance.

On the Burin Peninsula, \$800,000 will be provided to commence redevelopment of the Blue Crest Nursing Home in Grand Bank to maintain a high level of nursing care. This project also will include the planning and construction of a new community health center, adjoining the nursing home. As well, \$3.5 million will be provided this year to complete planning and commence construction of a new health care facility to provide a clinic and long-term care beds at St. Lawrence.

An amount of \$800,000 will be provided to plan and undertake design work for a new hospital facility for Goose Bay to replace the existing Melville Hospital. Funding also will be provided to commence construction of a new community health centre for Hopedale. As well, funding will be provided to expand the facility to provide long-term care beds at Forteau, and to improve chronic care services at St. Anthony.

Funding of \$2 million is provided to complete planning and design work and to commence construction of a new facility for the Newfoundland Cancer Treatment and Research Foundation.

Mr. Speaker, in total, Government will provide approximately \$32 million for equipment and capital works programs for the health sector in 1991-92.

Government has been reviewing the organization and delivery of hospital services in the St. John's Region in consultation with the hospitals, as well as with the St. John's Hospital Council. In the interest of enhancing quality and eliminating and avoiding duplication, a decision has been reached to centralize or restructure some services among the General, Grace and St. Clare's hospitals in St. John's. Obstetrics

and gynaecology will be centralized at the Grace General Hospital, while thoracic surgery will be centralized at St. Clare's Mercy Hospital and urology at the General Hospital. Psychiatric services, now offered at the Grace and St. Clare's hospitals, will be located at St. Clare's. Orthopaedic, general surgery, as well as respiratory and gastro-intestinal medicine will be further developed at St. Clare's, consistent with that hospital's changed focus.

A detailed review is proceeding with respect to laboratory services, nephrology and the St. John's schools of nursing, to determine if further efficiencies can be achieved. Government will continue to plan for the future development of hospitals in St. John's on two sites to further enhance the delivery of cost effective health care.

There is also a need to rationalize other health care expenditures and redistribute funding to critical service areas to ensure their continued viability. Basic vision assessments will no longer be covered under the Optometry Program and the Medicare Program as of April 1, 1991. There will be reductions in coverage under the dental and drug programs. As well, the medicare budget will be capped at the 1990-91 adjusted level. There also will be a reduction in the level of coverage under the Provincial Hospitalization Plan for hospital services obtained outside of Canada, unless residents are referred for specific approved procedures not available in Canada. This will bring Newfoundland's level of coverage more in line with that in other provinces.

Government is committed to expanding and enhancing community care and home support services in the Province to reduce demand on our institutional sector. In 1991-92, an additional \$4.8 million will be provided to help operate and develop further these programs, in conjunction with the Department of Social Services.

Overall, Government has budgeted more than \$870 million in its current and capital account budgets for the health sector, which represents an increase of approximately 3.6 percent over the projected revised budget for 1990-91.

Education

Mr. Speaker, although the education system must share the burden of fiscal restraint, changes must be made in a manner which minimizes the impact at the classroom level, from primary schools through to post-secondary institutions. Students must come first.

Government has frozen per capita student grants and school tax equalization grants to school boards for 1991-92. Teaching positions eliminated as a result of declining student population will not be filled, as in the past, with additional educational professionals. In addition, some professional positions will be eliminated at the school board level.

Capital funding for building and equipping schools, which was increased from \$20 million to \$27 million in 1989-90, will be maintained at that level for 1991-92. Meanwhile, Government will be developing a comprehensive long-term capital plan

for the elementary-secondary school system that will identify future capital requirements.

Funding restraint for community colleges and institutes will result in reduced duplication of program offerings, the elimination of outdated and low enrollment courses, and the elimination of positions. Additional management and administrative savings will be achieved through the integration of institutions resulting from the implementation of the White Paper on Post-Secondary Education. Sufficient funding will be provided to enable the community college at Baie Verte to maintain the same level of programs as last year.

The Government has agreed to provide Memorial University with a combined operating and capital grant of \$115.5 million for 1991-92. Government has budgeted an additional \$3.4 million to cover additional anticipated demand by students at post-secondary institutions for student aid and other allowances and benefits.

Funding for the Newfoundland and Labrador Youth Advisory Council will be terminated. Additional funding of \$100,000 will be made available to the Newfoundland and Labrador Arts Council.

Overall, Government has budgeted more than \$795 million in its current and capital account budgets for the education sector, which represents an increase of approximately 2.8 percent over the projected revised budget for 1990-91.

Social Services

Mr. Speaker, as part of Government's commitment to improving the economic and social well-being of those among us who are in need, we have decided to implement, effective November 1, 1991, a fuel allowance of \$50 a month for social assistance recipients living on the island portion of the Province who maintain households and do not have heat included in the cost of rent. Labrador recipients already receive a monthly heating allowance. This allowance will be paid for the months of November through April when the need for fuel consumption is at its highest.

In addition, Government has decided to improve the Social Assistance Programs's response to single parents with dependent children by introducing a single parent's monthly supplement of \$55. This allowance recognizes the special needs of single-parent families and will bridge the gap between the amount paid to single-parent families and that paid to two-parent families. These two measures will cost \$8 million in the next fiscal year. Government will no longer pay municipal taxes for those recipients requiring short-term social assistance. There will be no other change in social assistance rates.

Government continues to support the efforts of social assistance recipients to enhance their training and thereby improve their long-term employment prospects. Funding of \$3.5 million will be provided for the new Vocational Services Program, a two-year pilot project which will provide vocational counselling and training.

Government is committed to the development of new secure custody and remand facilities for young offenders. Work is continuing on the construction of the Newfoundland and Labrador Youth Centre at Whitbourne. Phase 1 of the new youth centre, which includes the central facilities as well as accommodations for up to 30 residents, will be ready for occupancy in 1991. Construction of Phase 2, which will provide accommodation for an additional 30 residents, will begin this spring and will be completed in the summer of 1992. Construction of the Corner Brook Youth Centre has been deferred.

Mr. Speaker, I am pleased to announce a grant of \$200,000 toward the construction of a new daycare facility on the campus at Memorial University. This is a relatively modest contribution towards a \$2 million facility, the funds for which are being raised by the students, whose efforts are to be commended for assuming responsibility for this undertaking. The new facility will provide 168 daycare spaces, thus providing increased opportunities for mature students to balance family responsibilities and academic life.

Overall, Government has budgeted \$259 million in its current and capital account budgets for the social service sector.

Justice

Mr. Speaker, a number of initiatives will be funded in 1991 to create a more effective court system. The jurisdiction of the Small Claims Court has been raised from \$1,000 to \$3,000, thereby enabling the adjudication of claims on a more timely and inexpensive basis. I am pleased to announce that funding is provided for additional Provincial Court staff for this purpose, and to move all court cases more quickly through the Provincial Court system. Furthermore, the operations of the Provincial Court will be consolidated with a greater emphasis on circuits to areas where a full-time court is not warranted. This will reduce the need to replace several retiring judges.

In response to concerns raised by the Auditor General and the Public Accounts Committee, improved financial management in the court system will be given a high priority.

In addition, Mr. Speaker, there will be constructed in Gander, a new court house.

In recognition of the problems and emotional difficulties experienced by victims of crimes in dealing with the criminal justice system, funding has been provided to develop a victim services pilot project in several locations throughout the Province. The Crimes Compensation Board will continue to provide financial compensation to victims of crime.

Additional funding of \$500,000 will be provided for the Newfoundland Legal Aid Commission to ensure critical needs are met. The Commission has been experiencing some difficulties in meeting the demands for legal services, which have been compounded by the Federal Government's freeze on contributions under the Criminal Legal Aid Cost-Sharing Agreement.

The largest area of expenditure in the justice system is policing services. Mr. Speaker, Government has had to reduce the number of police in both the RCMP and the Royal Newfoundland Constabulary. As a cost-saving measure having no significant impact on police protection on the Burin Peninsula, the Burin RCMP detachment will be merged with the detachment at Marystown.

Expenditure Summary

As a result of the measures taken to restrain expenditures, growth in the current account budget will be held to 3.3 percent on a gross expenditure basis, and 1.5 percent net, the lowest rate of increase in many years. Overall expenditure in 1991-92, current plus capital, will increase by 4.8 percent gross, but only 0.8 percent net.

CONCLUSION

In conclusion, Mr. Speaker, this Budget contrasts the relatively bright prospects for the economy with the extremely difficult financial position of the Government.

Though now in recession, the Newfoundland and Labrador economy is expected to be one of the first to recover, mainly as a result of the large Hibernia development. Prospects in the medium term for future offshore developments, such as Terra Nova, will further strengthen our economy, as will possible hydro developments on the Churchill River, and the recovery of the fishery which will, indeed must, occur over the next few years.

If the Government's financial position were as promising as the economy, this Budget would have been more pleasant for all of us. But the reality is quite different. A structural problem exists, our expenditures have been outpacing our revenues. Persistent growing deficits have been the result. That other provincial governments and the Federal Government are encountering the same problem, makes our task no easier.

I have mentioned the reasons we find ourselves in our present position. A major factor is the unrealistic financial expectations we have of government. Another is the Federal Government's decision to combat its \$400 billion dollar debt problem by restraining transfers to provinces in a very significant way. The cost to this Province of federal transfer restraint imposed since 1982 on equalization and EPF transfers will approximate \$180 million for the 1991-92 fiscal year alone, and exceed \$750 million in total since 1982-83. It is easy to see how different our Budget would have been without these federal transfer restraints. As well, the recession has hurt our financial position by reducing provincial tax revenues and by necessitating additional expenditures.

For these reasons, we have struggled over the past several months to cope with the prospect of a \$200 million current account deficit for 1991-92.

Mr. Speaker, we could have chosen to do nothing to reduce this deficit, but rather to borrow the whole amount. However, such an unprecedented borrowing requirement could lead to a day when the Province would be unable to finance its programs, simply because the capital markets would not be interested in buying our bonds, or would do so at greatly increased costs to the Province.

We could have chosen to tax away the \$200 million deficit. But that would have meant enormous tax increases for an already heavily taxed people.

Instead, we borrowed prudently, we increased taxes modestly, and we restrained expenditures in the public sector, over a broad range of activities. The health sector will be rationalized as a result of this Budget, but the result will be a better, more efficient, more balanced and more future-oriented system. Post-secondary educational institutions will rearrange their programs to reflect new realities. Government departments, agencies and Crown corporations will be streamlined. Major layoffs will occur. A wage freeze has been instituted. Pensions will not be increased.

Mr. Speaker, this budgetary process has been difficult. For many individuals the result will be painful. To implement the measures we have outlined will require the co-operation of all parties involved. We believe the steps we have taken in this Budget are essential to maintain the integrity of the Province's fiscal position and to assure the economic future of the people of Newfoundland and Labrador.

Appendix A

SUPPLEMENTARY EXPENDITURE DETAILS

EXPENDITURES FROZEN

Budgets for the following major programs and services will be frozen in 1991-92:

Health Care

- Dental services
- Hospital equipment funding
- Salaries under MCP physician services

Social Services

- Employment programs for social assistance recipients
- Grant funding to most organizations

Education

- School Tax Equalization Grants
- Per pupil grants to school boards
- Allocation of student assistant units to school boards
- Educational bursaries, scholarships and fellowships
- School construction grants
- Atlantic Provinces Special Education Authority grant
- Atlantic Veterinary College grant

Other Services

- Funding for the following organizations:
 - Canada-Newfoundland Offshore Petroleum Board
 - Newfoundland and Labrador Heritage Foundation
 - Newfoundland and Labrador Science and Technology Council
- Newfoundland Stock Savings Plan and Venture Capital Tax Credit Program
- Regional pastures
- Labrador legal services
- Student and graduate employment programs offered by the Department of Employment and Labour Relations

EXPENDITURES REDUCED OR ELIMINATED

The following programs and services will be reduced or eliminated:

Health Care

- Grant to Memorial University Faculty of Medicine will be reduced
- MCP coverage of routine dental surgery in hospitals is eliminated
- MCP coverage of fluoride treatment for children aged three and under is eliminated
- Basic vision assessments under the Optometry and Medicare Program will be eliminated
- Coverage of narcotic cough preparations under the indigent and seniors drug subsidy programs will be eliminated
- A maximum price is to be set for formulary no-substitution prescription claims
- Grant to the Dalhousie Dental School will be eliminated
- Various hospital services throughout the entire delivery system, will be rationalized, including the closure of 360 acute care beds

Police Protection and Corrections

- Holland College Training Program will be cancelled for one year
- RCMP Burin detachment will be closed with services to be provided through Marystown
- Woody Point and Placentia correctional offices will be closed
- The number of RCMP and RNC officers will be reduced

Social Services

- Payment of municipal taxes for recipients of short-term social assistance will be eliminated
- Funding for the Orange Home will be discontinued
- Construction of the Corner Brook Youth Centre will be deferred

Education

- Funding for Denominational Education Councils will be reduced
- Operating grants to community colleges and institutes will be reduced
- Funding for institutional school services will be reduced
- Electrical subsidy to the denominational colleges on the MUN Campus will be phased out over three years, beginning in 1991-92
- Teaching positions eliminated by declining enrollment will not be reinstated

Transportation Services

- Reduce Bell Island ferry service to one vessel for six months
- Ferry services to Little Bay Islands and Long Islands will be combined for spring and fall periods (six months)
- Limit Provincial Road Construction Program to \$25.5 million
- Defer construction of the \$24.0 million icebreaker ferry for the Fogo Island service

Other Services

- Reduce operating funding for Arts and Culture Centres
- Reduce Conservation and Renewable Energy Development Programs
- Discontinue funding for the Youth Advisory Council
- Close Grand Falls and Goose Bay Consumer Affairs offices
- Reduce hunter capability testing period from five to three months
- Close animal health inspection unit in North Sydney effective March 31, 1991
- Close swine breeding station on the west coast of the Province
- Reduce funding and merge Junior Forest Warden Program and the 4-H Program of the Department of Municipal and Provincial Affairs
- Merge Economic Council of Newfoundland and Labrador with the Advisory Board of the Economic Recovery Commission
- Reduce funding for operation of Marine Service Centres
- Reduce capital assistance for the Fisheries and Farm Loan Boards
- Reduce funding for the Newfoundland Public Libraries Board

Departmental Budgets

- Reduce Government departmental operating budgets
- Reduce Government departmental salary budgets

PROGRAM AREAS EXCLUDED FROM THE FREEZE

The following major programs and services will be excluded from the freeze in 1991-92:

Health Care

- Increase overall funding for hospitals
- Increase overall funding for nursing homes, personal care homes, and homes for ex-psychiatric patients
- No bed closures in nursing homes, an additional 78 long-term care beds to be funded
- Increase funding for home support and community based services

- Increase funding for the Newfoundland Cancer Treatment and Research Foundation
- Increase funding to the Alcohol and Drug Dependency Commission
- Increase funding for medical transportation services
- Additional funding provided for the planning, design and construction of new health care facilities

Social Services and Housing

- Increase funding for social assistance with the introduction of a fuel allowance for the island and a supplement for single-parent families
- Rate increases of four percent approved for daycare services, child welfare allowances and foster homes
- Additional funding provided for new social housing commitments under NLHC's Residential Rehabilitation Program, Rural and Native Housing Program and expand Heat Subsidy Program
- Expand the vocational component of the Employment Opportunities Program
- Provide a grant of \$200,000 toward the construction of a new daycare facility at MUN

Education

- Student aid budget has increased
- Funding for the transportation of school children has increased
- Funding for Memorial University of Newfoundland has increased
- Additional grant funding of \$100,000 for Literacy Program will be provided
- Funding for the construction of the Centre for Engineering Technology under the Offshore Development Fund

Economic Development

- Increase funding for activities of the Enterprise Newfoundland and Labrador Corporation
- Increase funding for mineral development activities
- Increase funding for tourism related activities
- Increase funding under the Offshore Development Fund for Hibernia related projects
- Increase funding for various other cost-shared agreements

Environment

- Funding is provided for the clean up of various sites on the assumption that a cost-shared agreement will be signed with the Federal Government

- Funding is provided for the Round Table on the Environment and Economy and support services in the Department of Environment and Lands

Justice

- Funding of \$180,000 is provided for victim services
- Increase legal aid funding by \$500,000

Other Services

- Funding provided to facilitate native land claims negotiations
- Career Development Program for Persons with Disabilities is provided
- Additional funding of \$100,000 to the Arts Council

Appendix B

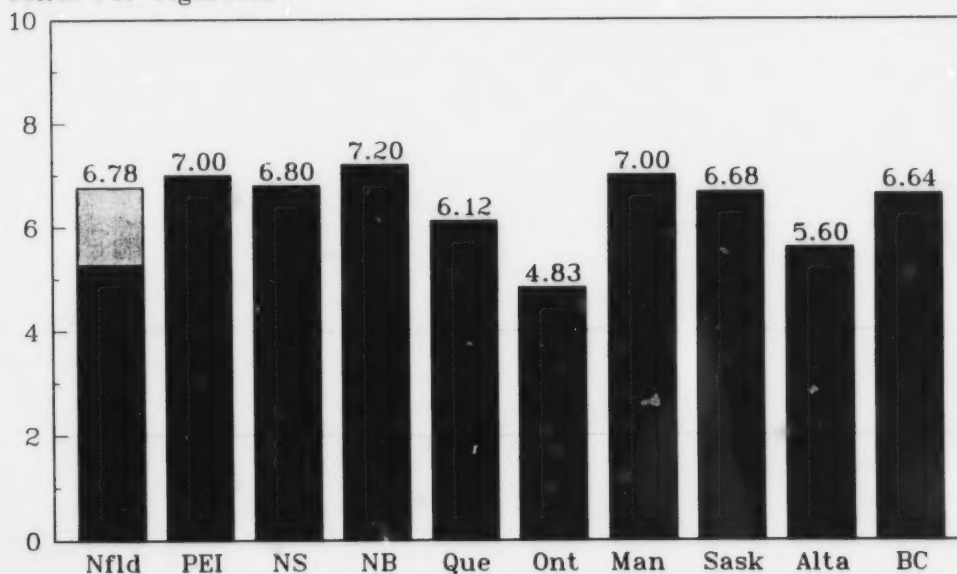
SUPPLEMENTARY REVENUE DETAILS

This appendix presents supplementary details on tobacco tax as well as fees and licences initiatives contained in the Budget.

TOBACCO TAX

Newfoundland tobacco tax is applied as a fixed amount per cigarette, regardless of manufacturing variations such as cigarette length or weight of tobacco content. The rate will increase by 1.5 cents from 5.28 to 6.78 cents per cigarette, effective 12:01 a.m. March 8, 1991. This latest increase brings the Newfoundland tax more in line with the rates imposed by other provinces. Figure B-1 gives an interprovincial comparison of the amount of tax imposed on cigarettes across the country. Seven provinces, including Newfoundland, impose their provincial sales tax on tobacco products in addition to their tobacco tax.

Figure B-1
Tobacco Tax by Province — March 1991
Cents Per Cigarette



The Newfoundland tax on fine cut (loose) tobacco is expressed as a fraction of the cigarette rate. Therefore, an increase in the cigarette rate automatically adjusts the fine cut rate. The 1.5 cent cigarette rate increase translates into a one cent per gram increment in the fine cut rate, bringing the tax from 3.52 to 4.52 cents per gram.

The tobacco tax increase announced in the Budget, including RST, will add \$3.36 to the consumer price of a carton of 200 cigarettes and \$2.24 to a 200 gram canister of fine cut tobacco.

FEES AND LICENCES

Government announced in the 1990 Budget that a major review of fees and licences administered by the Province would be undertaken with a view to improving efficiency and equity, while eliminating unnecessary annoyance levies. Several measures have been identified for implementation during the 1991-92 fiscal year. The net impact upon users of the system will be about \$240,000 (see Table B-1). Further changes to fees and licences will be announced after the review is completed.

The approved fees and licences changes are outlined below. Additional information on these measures will be provided by the departments responsible.

Department of Environment and Lands

Small Game Licence

In the past, separate licences were issued for rabbit and partridge at a cost of \$10 each. The new measure will combine the two licences into a small game licence at a cost of \$15. In addition, a free youth licence for snaring will be introduced for persons 15 years of age and under. The fee for the non-resident small game licence will be set at \$25. These measures are effective for the 1991-92 season.

Resident Big Game Licence

Currently, prospective hunters submit a \$5 application fee along with the \$25 licence fee when applying for a licence, the latter fee being refunded to unsuccessful applicants. The new measure will terminate the \$5 application fee and increase the licence fee to \$35, which would be remitted by successful applicants only, thereby eliminating the need to issue refunds and charging only those who actually receive a licence. This measure is effective immediately.

Park Fees

A new fee schedule will be implemented for the use of park facilities which will include an increase for inflation and the GST. Also, weekly and seasonal permits will be eliminated to allow for greater access to campsites for all users while the

winter camping fee will be increased. Finally, the same fees will be imposed on senior citizens as on other park users. These measures are effective immediately.

Department of Finance

Pump Fees

The \$10 annual fee imposed on each pump used to retail petroleum products sold through operators such as service stations, garages and gas bars will be eliminated, effective January 1, 1992. Those pumps still will have to be registered with the Department of Finance, but it will be a one time registration process with no fee imposed. The revenue that the Province will forego through this measure will be made up by fee changes to wholesalers' licences.

Department of Mines and Energy

Quarry and Mining Rental Fee

Currently, quarry operators and mining operators each pay a different amount of ground rent to the Provincial Government under The Quarry Materials Act and The Mineral Act, even though they receive about the same utility from the rental charge. To rectify this anomaly, the rate charged to quarry operators will be standardized with the amount charged mining operators under the Mineral Act, effective immediately.

Department of Works, Services and Transportation

Commercial Vehicle Fees

The current fee schedule for commercial vehicles applies an unequal rate per kilogram for different size vehicles. Amendments will be made to the fee structure to achieve a more even progression of rates, effective in the 1991-92 fiscal year.

Motor Carrier Licensing

Motor carrier fees charged by Board of Commissioners of Public Utilities will be eliminated with the proclamation of the new Motor Carrier Act. Government will increase motor vehicle registration fees to replace the lost revenue. These adjustments will be effective in the 1991-92 fiscal year.

Single Trip Permits

Commercial vehicles entering the Province from another jurisdiction can obtain a single trip permit for \$50 per unit (truck and trailer considered two units), rather than registering their vehicles for the minimum one month term. In response to requests from local operators, an amendment will be made to enable them to also avail of the lower cost single trip alternative, effective in the 1991-92 fiscal year.

Table B-1**REVENUE IMPACT OF FEES AND LICENCES INITIATIVES, 1991-92**

ENVIRONMENT AND LANDS	
Combine rabbit and partridge licences and increase non-resident small game licence fee	\$ 27,000
Eliminate big game application fee and increase resident big game licence fee	32,000
Increase park fees, eliminate weekly and seasonal fees and charge seniors	200,000
FINANCE	
Eliminate annual petroleum retailer pump fee, implement one-time registration and amend wholesaler licence fee rates	0
MINES AND ENERGY	
Standardize rental fees under The Quarry Materials Act and The Mineral Act	15,000
WORKS, SERVICES AND TRANSPORTATION	
Standardize commercial vehicle fees	(125,000)
Increase vehicle registration fees	739,000
Allow single trip permits to be issued to commercial vehicles based in the Province	2,000
Total Current Account Impact	890,000
Elimination of Board of Commissioners of Public Utilities motor carrier fees	(650,000)
Net Impact Upon Users of the Fees and Licences System	\$ 240,000

Appendix C

TAX REFORM

INTRODUCTION

The Department of Finance has been conducting a review of selected provincial revenue sources in response to a changing fiscal environment. One of the most important elements of this changing environment has been the federal goods and services tax (GST), implemented on January 1, 1991. Although the Provincial Government resisted the implementation of the GST because of its increased financial burden on consumers, and its intrusion into a traditionally provincial taxation field, Government recognizes that certain features of the GST have merit. It is desirable to incorporate some of the GST concepts into the provincial sales tax regime to ensure Government has the fiscal ability to fulfil its responsibilities both to the public by delivering an appropriate level of services, and to taxpayers by invoking a fair and equitable tax system. The retail sales tax (RST), because it is the Province's most important own-source revenue instrument and has obvious similarities with the GST, has been a principal focus of study.

The federal imposition of the GST, however, is not the only impetus for tax reform. A number of provincial revenue sources may no longer be well adapted to the changing fiscal and economic environment. As a result, some may have become deficient and inefficient taxation instruments or, at worst, unfair and inequitable impositions on the public. The school tax has been identified as one instrument requiring re-evaluation in this regard.

It may not be the best approach to attempt a wide ranging reform of various taxes on a piecemeal basis, but instead to seek a better result by co-ordinating a reform package. For example, by combining modifications to the RST and other taxes with school tax elimination, Government may be able to implement an integrated package of tax reforms that would permit many of the better features of the GST to be incorporated into the RST, at the same time fostering a less regressive and more fiscally stable tax system that also would support Government's economic development objectives. To stimulate public input, what follows is an outline for illustrative purposes of the main points that could be associated with a tax reform package. It must be stressed that analysis of reform options is ongoing, and that Government has not yet reached the point of deciding on a reform package.

TAXATION EFFORT AND TRENDS

As illustrated in Figure C-1, the combined level of provincial and local government taxation in Newfoundland in 1990 was only 100.7 percent of the all province average, despite the highly visible 151 percent consumption tax effort. As Figure C-2 indicates, provincial taxes, as a percentage of GDP, have been rising in Newfoundland since the mid-1980s. Most of this increase has been in personal and retail sales taxes, while business taxes have actually trended lower in relation to GDP.

This reliance on higher personal and consumption taxes, to some extent offset by lower corporate taxes, is prevalent across Canada at both the federal and provincial levels. The need to increase taxes to meet fiscal requirements has been tempered on the corporate side by the desire to ensure Canadian businesses will be competitive in global markets and that Canada will be seen as an attractive place to invest.

Figure C-1
Newfoundland Tax Effort as a Percent
of All Province Average — 1990

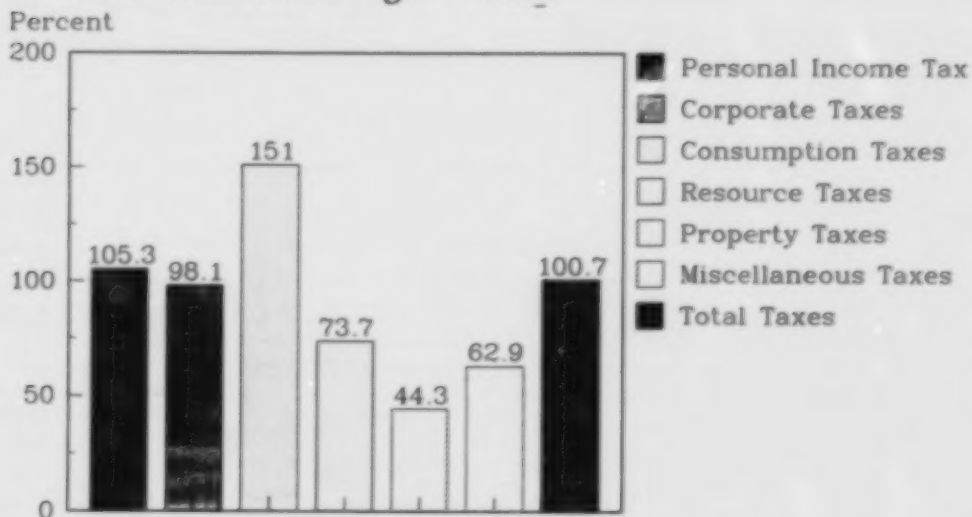
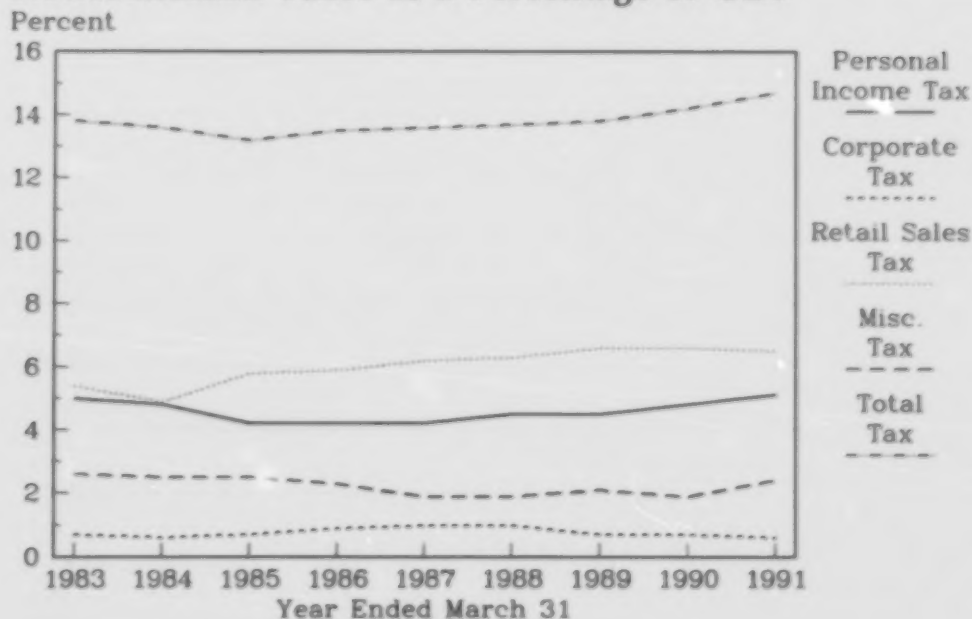


Figure C-2
Newfoundland Taxes as a Percentage of GDP



RETAIL SALES TAX

To put the sales tax reform analysis into context, it is useful to consider how the RST system has developed as a fiscal instrument in this Province. Interestingly, the RST base was broader in the past and has been narrowed by the deliberate action of successive governments to achieve various social and economic policy objectives, although concurrently the tax rate has been increased quite dramatically. Newfoundland was the fifth province of Canada to implement a sales tax, with The Social Security Assessment Act coming into force on November 15, 1950. The name of the act was changed to The Retail Sales Tax Act in 1973.

Our RST is foremost a goods tax, imposed on the purchaser of "tangible personal property", defined as anything perceptible to the senses, although over the years the tax has come to also encompass certain services. The third potential component of a comprehensive consumption tax base along with goods and services, that is real property, has always been excluded, except for building materials used in construction and some fixtures. Differential rating has been used sparingly, once to provide a lower rate for building supplies and once to tax advertising at a reduced rate. Many economic development agreements, primarily from the 1950s and 1960s but some up to the present day (e.g., Hibernia), have granted tax concessions to support various ventures, with over 50 such agreements and related pieces of legislation in place.

The RST is a single stage, direct tax, in that it applies at only one point in the production and distribution chain, at the time of the final sale to the end consumer. By design, the tax starts with a broad, actually comprehensive, base in the goods sector. To determine what is not taxable it utilizes the suspension principle. Essentially, it taxes everything except those items for which specific exemptions are provided in the legislation. Most exemptions are granted to achieve a government policy goal, but others reflect the constitutional limitation of the provinces to direct taxation (e.g., goods purchased for resale) or administrative considerations such as the taxation of consumption under another piece of provincial legislation (e.g., gasoline).

The original Act set the tax rate at three percent and provided a limited range of exemptions. In 1952 the exemption for basic groceries was withdrawn, and groceries were taxable until 1960 when the exemption was reinstated, along with a new exemption for school books. In a clear example of how narrowing the tax base forces higher tax rates to maintain revenue yields, concurrent with the reinstatement of the groceries exemption the tax rate was increased from three percent to five percent. The late 1960s saw two further rate increases, to six percent in 1967 and seven percent in 1968. The 1968 Budget also exempted newspapers published within the Province. The next year witnessed the first base expansion into the service sector, broadening the tax from being strictly a goods tax. The 1969 Budget taxed communications services (e.g., telephone, telegram and telex), repair labour on furniture, appliances and motor vehicles, dry cleaning and hotel accommodations.

In the early 1970s a number of costly exemptions were brought into the tax regime including children's and adult clothing and footwear, and in 1974 heating fuels, although two offsetting rate increases were implemented, bringing the rate to eight percent in 1974 and to ten percent in 1975. Tobacco products also were brought into the tax base in 1975. The tax base was further extended into the service sector in 1977, becoming more comprehensive in taxing repairs and installation charges, as well as adding cable television. In 1978 the rate was increased to 11 percent, while the domestic use of electricity was exempted. Differential rating entered the tax regime in 1979 when a four percent rate was imposed on advertising services, a rate which has remained unchanged to date. Further, hard and soft cover books, other than already exempt school texts, were added to the exemption list that year.

The next significant amendments to the tax regime came in 1982 when the tax rate was increased to 12 percent, concurrent with a reduction in the rate on building supplies to eight percent and the removal of the exemptions for adult clothing and footwear, and heating fuel for commercial purposes other than manufacturing. The acquisition of productive capital equipment was exempted in 1982 for small businesses and in 1984 for all manufacturers. In 1985 handicrafts produced in Canada were exempted to support this cottage industry. The tax on building materials was increased from the preferential eight percent rate to the general rate of 12 percent in 1986. Also in 1986, The Retail Sales Tax Act was amended to incorporate the insurance premiums tax. This tax represented the Province's earliest application of a consumption tax to the service sector, being imposed in 1952. Since 1968 the insurance premiums tax had paralleled the RST, and for more efficient administration was brought under The Retail Sales Tax Act. There have been no major changes to the RST regime since 1986.

While there are some differences, our RST system is generally similar to the sales taxes imposed by the other provinces. Our tax base tends to be somewhat broader than the other provinces but not expansively so, with our propensity to tax more items being a reflection of the demands we have placed on RST as a revenue generator. The sales tax effort of the eastern provinces has traditionally been higher because we do not have the industrial tax base of central Canada or the resource tax base of the western provinces.

The GST will inevitably force some measure of sales tax reform in all the taxing provinces. Already two provinces, Quebec and Saskatchewan, have reached agreement with the Federal Government to substantially harmonize with the GST. In a sense, pursuing RST reform only would be returning the RST regime to its original design in the goods sector, and applying the same broad base, low rate principles to services and real property.

FEDERAL SALES TAX REFORM

The federal manufacturers' sales tax (FST) was introduced in the 1920s. Before its replacement with the GST, Canada was the last major industrialized country to retain this type of sales tax. Over its history the FST was widely recognized as a flawed instrument and several previous attempts were made to rectify its shortcom-

ings, none particularly successful. On June 18, 1987 the Government of Canada issued a White Paper on tax reform. The White Paper proposed two stages of tax reform: (1) reform of the income tax system, and (2) reform of the FST system. In the White Paper the Federal Government outlined its reasons for pursuing tax reform. The Federal Government felt that Canada's existing tax system was unfair in many ways, was hurting Canada's ability to grow and create jobs, and was an increasingly unreliable source of government revenues.

A number of specific shortcomings were identified with the FST. It was too narrowly based, discriminatory in its treatment of many manufactured goods, biased against our exports and in favour of imports, unpredictable in its impacts and increasingly complicated. Further, it distorted consumer prices, created barriers to economic growth and was unfair to low income Canadians. In the Federal Government's view, a multi-stage value added (VAT) type sales tax applied at a uniform rate on a broad base, together with enhanced refundable sales tax credits for lower income families, would be more neutral and fair than the FST. They also believed a reformed tax would stimulate the Canadian economy, and would simplify compliance with and administration of the tax system.

The Federal Government initially expressed a preference for a national sales tax (NST), replacing both the FST and existing provincial retail sales taxes with an integrated VAT type tax at a rate that had a federal component uniform across the country and a provincial component set independently by each province. It was the federal position that an integrated NST system would be advantageous because amalgamating the existing sales tax systems of the federal and provincial governments into one would reduce complexity, lower administrative costs and enhance economic efficiency.

To this end, a committee of federal and provincial officials met over a two year period to work out the details for the possible implementation of an NST. On April 24, 1989, however, the federal Minister of Finance announced that, because of the unlikelihood of reaching agreement with the provinces on an NST within an acceptable timeframe, Ottawa would proceed alone with the implementation of sales tax reform. An overview of the new federal tax, the GST, was released with the budget speech on April 27, 1989, which after some technical amendments was implemented on January 1, 1991.

PROVINCIAL SALES TAX REFORM OPTIONS

Analysis of the fiscal effects of provincial harmonization with the GST indicates that in order to remain revenue neutral the RST rate would have to increase, at a minimum, to 14 percent. A rate increase would be necessary because the revenue gained through base broadening would be substantially less than the revenue foregone in business input credits and other rebates. Further, because of the structure of the provincial economy, the \$120 million cost of business credits would not lead to the economic gains in business expansion and output that could be realized over time nationally. In short, the cost would not be justified by the return. To the contrary, a 14 percent RST rate could have a detrimental effect on the

provincial economy overall because the negative impact on consumers would not be offset by the positive effects of removing the RST burden from business inputs. It would be difficult to adjust other taxes to make up the revenue needed to keep the RST rate down because the amount involved would necessitate major compensatory tax measures, which in turn would have not inconsequential repercussions on the Province.

While it may not be practical to harmonize with the GST, this does not mean that the Province could not incorporate elements of the GST approach into the RST regime to give the Province a better tax. For instance, one of Government's objectives would be to lower the RST rate to reduce the economic distortions that flow from a high rate. Because of Government's fiscal position in the foreseeable future, it is not possible for Government to simply reduce the RST rate and give up the approximately \$40 million per point that the RST yields. The GST approach is to adopt the broadest consumption tax base practical, and because the tax burden is spread over such a wide range of economic activity, unlike our RST which is narrower, the tax rate can be set lower to achieve any particular revenue objective. Further, because the tax burden is more equitably distributed, tax induced distortions are minimized. The tax system also can become more efficient to administer because it is no longer cluttered with exemptions and special preferences. The result can be a fairer and simpler sales tax.

It is not possible to achieve this broader base, lower rate scenario, however, without many groups focusing, in a narrow context, on a winners, losers dichotomy. Many suppliers and users of items added to the base which previously did not attract tax, even if the tax rate were lower, would view base broadening in overwhelmingly negative terms. Others who benefit more directly from a lower tax rate may embrace tax reform as a welcome evolution in our tax system. Government, while not ignoring the impact on different groups, has to take the more expansive view, and assess the initiative on the basis of its overall impact, maximizing the net benefits to the Province as a whole. In recognizing that the GST is designed to be imposed on the national economy, and that the provincial economy is somewhat at variance from this, provincial tax reform, while encompassing the spirit of the GST, out of necessity should be expected to contain "made in Newfoundland" features.

One of the most important features, because of its impact on the provincial economy, is the issue of sales tax relief to the business sector. A GST type base with no relief to business would augment RST receipts from this sector by about \$100 million at 12 percent. This would severely affect the competitiveness of local businesses, stifle our opportunities for economic development and lead to higher consumer prices. Yet full GST type business relief is beyond our fiscal means. A compromise could see either partial, selective or sectoral relief, with the emphasis being on promoting growth, diversification and generally a stronger provincial economy. The existing RST regime contains certain industry preferences, and this could be expected to continue. For example, the retail trade may not receive the same measure of tax relief, if it received any at all, as would the manufacturing sector.

Government also may decide not to tax sales of such items as new housing, domestic fuel and electricity or engineering services. In all likelihood Government would retain the single stage RST system instead of moving to a multi-stage GST approach. Adjustments to the RST base or other taxes may eliminate the necessity for the equivalent of GST low income personal tax credits to be introduced into the provincial tax regime. One of the advantages of not adopting the principle of strict adherence to the GST model is that the Province would retain what in many respects is a desirable degree of independent tax policy control and flexibility. This is particularly important in a province such as Newfoundland which has to place more demands on its consumption tax regime than other provinces because we do not yet have the fiscal capacity to emulate many of the economic and social initiatives pursued elsewhere in the country.

Not being able to adopt what may be an ideal tax regime should not prevent us, however, from utilizing more fully what we can adapt to best achieve our policy objectives. This is the focus of RST reform. RST reform would not diminish the total tax burden. RST reform cannot be accomplished without some individuals and certain businesses perceiving themselves to be less well off. RST reform can redistribute the tax burden, however, to be fairer and more equitable, while fostering a business climate that would enhance our ability to create a stronger and more vibrant provincial economy.

POSSIBLE FEATURES OF A REFORMED TAX SYSTEM

GST Type Base and a Lower Tax Rate

With the recent imposition of the GST, both consumers and businesses are subject to the undesirable situation of having to deal with two very different sales taxes. One partial solution is to harmonize the base of the provincial RST to the extent practical with the GST so that it applies to the same goods and services as the federal tax. Table C-1 and Schedule C-1, while not exhaustive, list items that could be included in an expansion of the RST base coverage. As the Province is not bound to mirror the GST base exactly, certain goods and services may be deleted to reflect Government's policy priorities or for reasons of administrative feasibility.

By adopting a broader RST base, the Province conceivably could reduce the tax rate below the current 12 percent and remain fiscally whole. Table C-2 shows that even at a nine percent rate (tax on tax, 10 percent tax side by side) the full GST base could generate sufficient revenue to match current tax receipts, with some additional revenue available to mitigate against the more negative impacts of base expansion.

Table C-1
REVENUE POTENTIAL OF RST BASE EXPANSION OPTIONS

		(millions of dollars)	RST POTENTIAL AT 12 %
Goods			
	Clothing and Footwear		10
	Reading Materials		5
	Domestic Fuel and Electricity		35
	Manufacturing Equipment and Energy		34
	Miscellaneous Exemptions		1
	Total Goods		85
Services			
	Recreation and Entertainment		10
	Instructional Courses		1
	Personal Care		5
	Personal Transportation		15
	Household Services		4
	Professional Services		10
	Business Services		15
	Total Services		60
Real Property			
	Maintenance and Repair(1)		5
	New Residential and Commercial Construction(1)		55
	Resales of Commercial Property		20
	Commercial Property Rents		15
	Real Estate Commissions		5
	Total Real Property		100
			245

Note:

1. Base expansion will include the labour and value-added portion of real property construction and repair.

Table C-2
RST ESTIMATES ON A GST BASE(1)

(millions of dollars)					
	Current Base 12%	11%	GST Base 10%	9%	8%
Personal Sector	365	435	395	355	315
Business Sector, NPOs and MUSH(2)	150	255	230	210	185
Total RST(3)	515	690	625	565	500
Increase (Decrease)	-	175	110	50	(15)

Notes:

1. Assumes expansion to the full GST base with the removal of all existing commodity and industry exemptions for the personal and business sectors, NPOs (non-profit organizations) and MUSH (municipalities, universities, schools and hospitals).
2. NPOs and MUSH about 10 percent of totals.
3. Does not include RST the Provincial Government pays on its purchases, or RST arising from provincially funded MUSH expenditures.

Impact of Base Expansion

It is apparent from Table C-2 that a GST base, without the equivalent of input tax credits, would impact particularly severely on the business sector, resulting from a direct incremental increase in tax paid, even at a nine percent rate, of 40 percent. The negative impact of such an increase on the business community, and the provincial economy as a whole, could be quite acute, particularly in the case of those industries which currently benefit from sales tax exemptions. For this reason, adoption of the full GST base without provision to offset some of the increased burden on business is clearly not in the best interests of the Province.

Under the GST regime, as a result of the input tax credit mechanism, business pays virtually no federal sales tax. In many ways this is a laudable provision from an economic and commercial perspective, but unfortunately it is not one that the Province can afford at this time. Full provincial input credits to business would eliminate virtually all RST receipts from this sector. In order to protect the Province's fiscal position additional sales tax receipts would have to be generated from the personal sector, requiring expansion to a GST type base and an increase in the sales tax rate above 12 percent. This would place an onerous financial burden on individuals, and also would weaken the provincial economy by reducing consumer demand.

To achieve a business tax burden that falls somewhere between the extremes of no relief and full relief, an exemption, credit or rebate system would have to be utilized to deliver some measure of tax diminution. Partial relief would require business to pay RST on the expanded base, but also would permit some portion of the tax paid (e.g., 50 percent) to be claimed back from Government, reducing the effective tax rate on purchases. This type of relief could be of general application, or different relief rates could apply to different industry sectors. Selective relief would allow any business to forego payment of the tax on specified purchases (e.g., commercial property rents). Sectoral relief would target certain sectors (e.g., manufacturing) for preferential tax treatment, possibly eliminating the entire direct RST burden for some. Any decision to proceed on either of these courses would have to be tempered by considerations of the additional complexity for businesses and the administrative feasibility for Government.

Adjustments to Other Taxes

An alternative to a full input tax credit system could be developed by incorporating other taxation instruments into a more comprehensive approach to tax reform. Table C-3 presents an analysis of a reform package involving a GST type base, in combination with the elimination of the school tax and a number of minor tax adjustments. Under this scenario, existing sales tax exemptions for the fishing, forestry, and manufacturing sectors would be maintained. The Provincial Government would increase education funding to offset the loss of school tax receipts by school boards. As a consequence, the \$5 million administrative cost of the School Tax Authorities would no longer be a burden on taxpayers.

Table C-3
IMPACT OF TAX REFORM

	(millions of dollars)		
	Current 12% RST	Tax Reform 11% RST	10% RST
Personal Sector			
RST	365	435	395
Alcohol and Tobacco(1)	-	4	7
School Tax	22	(22)	(22)
Net Tax	387	417	380
Increase (Decrease)	-	30	(7)
Business, NPOs and MUSH			
RST(2)	150	210	190
School Tax	15	(15)	(15)
Net Tax	165	195	175
Increase	-	30	10
Fiscal Impact			
RST(3)	515	645	585
Alcohol and Tobacco	-	4	7
School Tax	37	(32)	(32)
Total Tax Receipts	552	617	560
Increase	-	65	8

Notes:

1. Adjustments made to alcohol and tobacco taxes to maintain their present revenue yield.
2. Existing industry exemptions maintained.
3. Does not include RST the Provincial Government pays on its purchases, or RST arising from provincially funded MUSH expenditures.

At a 10 percent RST rate, personal taxes actually decline by \$7 million, while those of primarily the business sector rise by \$10 million, or six percent. An 11 percent RST rate would permit Government, for example, to continue exempting domestic fuel and electricity from tax (cost \$30 million), and to target some additional tax relief at the business sector in accordance with Government's economic development priorities. The impact of these tax changes also would meet the important criteria of allowing Government to remain fiscally whole.

Development policy and closer harmonization with the GST also could be pursued by giving more complete RST relief to the business sector, but recouping some of the revenue foregone through a new general corporation capital tax. One advantage of a capital tax is that it would give Government policy flexibility in business taxation that it does not have in the income tax system because of the restrictive Tax Collection Agreement with the Federal Government. A rebalancing of business taxes could be accomplished by making concurrent adjustments to the corporate income tax rates and the payroll tax. The overall objective would be to ensure the tax system promotes the kind of economic development the Province

needs without compromising government revenues, while creating a fairer and more equitable tax regime for consumers.

Personal Sector Impacts

A tax reform package, such as outlined in Table C-3, could contribute significantly to increasing the progressivity of personal taxes in the Province. Figure C-3 reveals that at an 11 percent RST rate, with the exception of households with less than \$10,000 in total income, all households would see a change in their combined tax burden proportional to their total incomes. Households with over \$50,000 in total income would see taxes rise by nine percent over their current combined sales and school tax. Those with total incomes between \$10,000 and \$20,000, on the other hand, would see their taxes decline by one percent. Households with incomes between \$20,000 and \$50,000 would experience a progressively larger percentage increase in taxes paid as income rises. The anomaly in the under \$10,000 category exists because most individuals in this group do not pay school tax, and therefore would not realize a tax saving from its elimination. An additional factor that would have to be considered for all households is the extent to which changes to the business tax regime were passed on to local consumers through retail price changes.

Figure C-3
Average RST and School Tax Burden on Households:
Tax Reform With 11 Percent RST

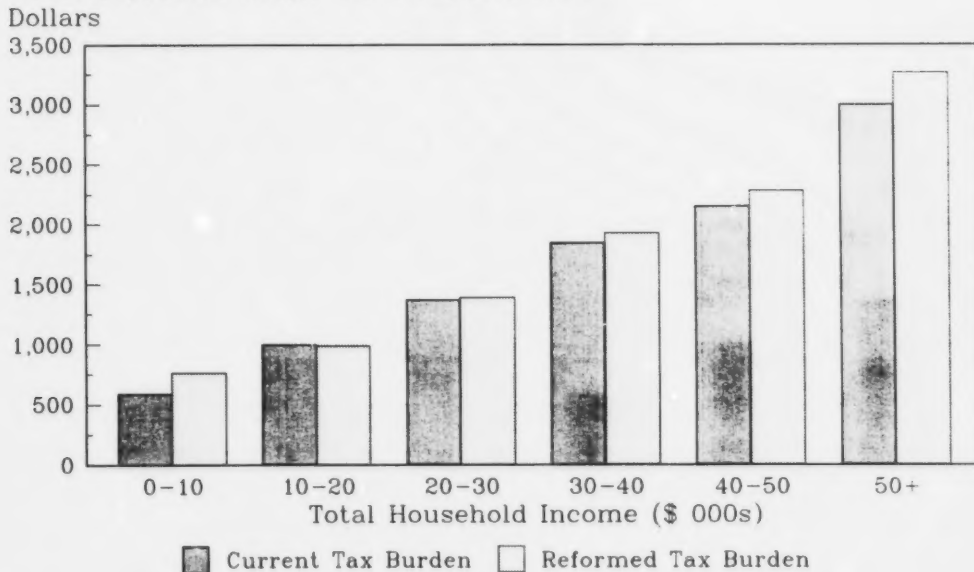
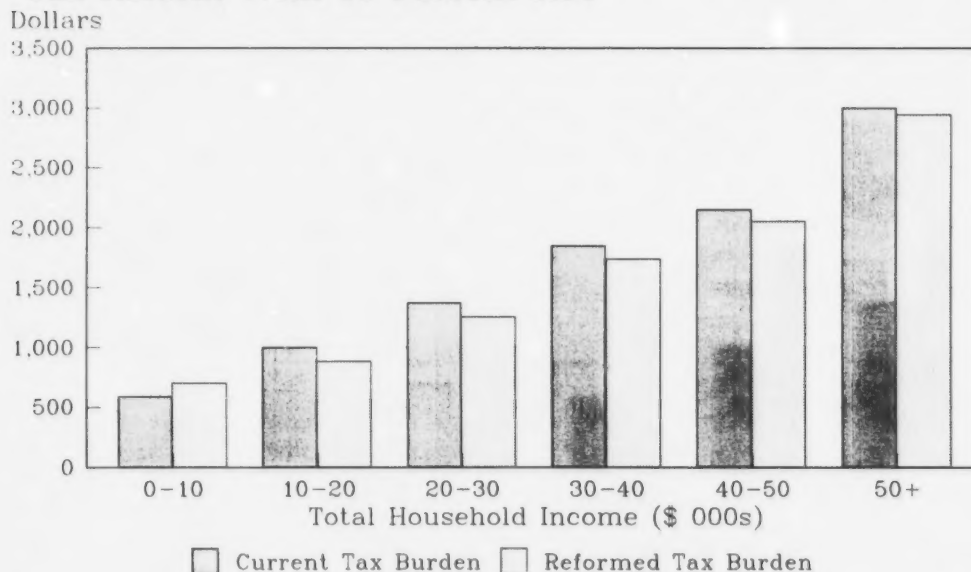


Figure C-4 indicates an equally progressive impact at a 10 percent sales tax rate. In this case, the lower sales tax rate results in a decline in taxes paid by all households with incomes over \$10,000, with those at the lower end experiencing a proportionately greater decrease than their higher income counterparts.

Figure C-4
Average RST and School Tax Burden on Households:
Tax Reform With 10 Percent RST



The additional sales tax borne by the lowest income households could be offset through some system of rebates or credits. Table C-4 shows that the increase in taxes paid by households with under \$10,000 in total income could be fully offset by the Province at a cost of only \$1.5 million at an 11 percent rate, or \$900,000 at 10 percent. In fact, all households with total incomes under \$30,000 could be sheltered under the 11 percent scenario at a cost of only \$2.2 million. The relatively low cost is testament to the regressive nature of the current school tax system, and the increased equity to be gained from its elimination.

Table C-4
COST OF LOW INCOME RELIEF UNDER TAX REFORM(1)

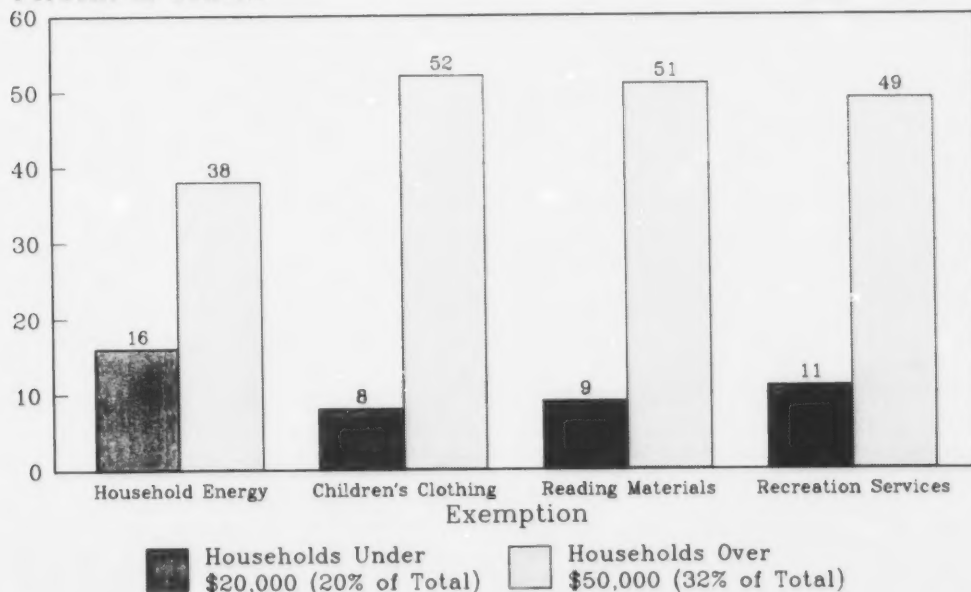
	11% RST		10% RST	
	Total (\$millions)	Cost Per Household (dollars)	Total (\$millions)	Cost Per Household (dollars)
Low Income Threshold				
Households Under \$10,000	1.5	173	0.9	107
Households Between \$10,000 and \$20,000	0	0	0	0
Households Between \$20,000 and \$30,000	0.7	21	0	0
	2.2		0.9	

Note:

- Assumes low income relief will be designed to fully offset any additional tax over the current combined RST and school tax.

A low income rebate or credit would be a more efficient and equitable mechanism to protect the households least able to afford higher taxes than would maintaining existing social policy exemptions. Although low income families typically spend a higher proportion of their income on current consumption, in absolute terms it is the higher income households that spend more and thereby receive a greater share of the benefit from tax exemptions. This is illustrated in Figure C-5.

Figure C-5
Distribution of RST Exemption Benefits
Percent of Benefit



To take one example, over \$8 million in sales tax is foregone by exempting children's clothing. As a social policy measure, this is meant to ease the burden on low income families in having to properly clothe their children. Figure C-5 reveals, however, that 52 percent of the benefit from this exemption is going to households with over \$50,000 in total income, although this group comprises only 32 percent of all households. In contrast, households with less than \$20,000 in total income, 20 percent of the total, receive only eight percent of the exemption benefit. This indicates that the distribution of the children's clothing exemption benefit is not consistent with the social policy goals it is meant to promote.

Figure C-5 reveals the same skewed benefits with respect to reading materials, recreation services and, to a lesser degree, household energy. Given the high cost of these exemptions in foregone tax receipts, and the inequitable distribution of the associated benefits, the value of retaining these preferences is questionable. It would seem that the policy objectives that sales tax exemptions are meant to promote could be more efficiently and equitably achieved through their removal, concurrent with a lowering of the RST rate and the substitution of some offsetting measure to specifically address the needs of those on low incomes. Government's objective should be to ensure that the tax system does not grant tax preferences to individuals out of proportion to their ability to contribute a fairer share towards maintaining public services, while at the same time relieving any excessive burden from those who do not have the ability to pay.

CONCLUSIONS

More research, analysis and public input is necessary before implementing a tax reform package. The work done thus far indicates that the potential benefits are clearly sufficient to warrant pursuing the initiative, but that reform must be approached cautiously, particularly with respect to its impact on the provincial business sector. While such measures as maintaining existing industry exemptions, eliminating the school tax, and lowering the sales tax rate would offset most of the negative impact in the aggregate, the effect of tax reform on specific industrial and commercial segments has to be determined in more detail. With a lower rate and expanded base some businesses would experience a decline in sales tax paid on their inputs, while others no doubt would see an increase. Adding sales tax to previously untaxed items and lowering the tax on presently taxed ones also would have varying effects on consumer demand. The consequences of these shifts would have to be explored before any steps were taken to implement reform.

While the scenarios outlined indicate that tax reform can be accomplished without significantly increasing the tax burden on business, it is not certain that this in itself will be enough. Quebec and Saskatchewan have recently embarked on GST harmonization, which will see the virtual elimination of all sales taxes currently paid by business in those provinces, resulting in lower provincial production costs and ultimately lower product prices. There is a real possibility that other provincial governments will adopt a similar approach to enhancing the competitiveness of their industries.

In this environment, Newfoundland must be prepared to respond in such a manner as to ensure local industries are not placed at a competitive disadvantage when trying to market their products, and that the Province, in competing for new industries and development projects, will be seen as an attractive place to invest. The tax reform scenario outlined promises to provide Government with some capacity to address these issues. Whatever measures are put into place have to be flexible enough to be able to respond to changes in the relative competitiveness of Newfoundland with a minimum of disruption to the economy and government finances.

With the impact of the GST, and the probability that other jurisdictions will adopt similar measures, tax reform is highly desirable, if not mandatory. Consumers would benefit from a simpler, more progressive tax system with a lower sales tax rate. Government also would benefit from the greater degree of fiscal stability inherent in a broader sales tax base. Most importantly, as an integral component of Government's development policy, tax reform should contribute to creating the positive business climate necessary to address the challenge of securing a prosperous economic future for the Province.

Government seeks public input into this process. Individuals or groups are invited to submit their views to the Minister of Finance.

Schedule C-1
RST BASE EXPANSION OPTIONS

GOODS

Clothing and Footwear

- children's clothing and footwear
- material and notions
- Labrador exemption

Reading Materials

- newspapers published in the Province
- magazine subscriptions
- leisure books
- elementary and secondary textbooks
- post-secondary textbooks

Domestic Fuel and Electricity

Miscellaneous

- handcrafts
- wood and peat stoves
- thermal insulation materials
- children's car seats
- fire alarms and smoke detectors

PERSONAL SERVICES

Recreation and Entertainment

- movies
- live sports events
- stage performances
- recreational club memberships
- single usage recreation fees

- exhibition admissions
- social club fees and dues
- pools and lotteries

Instructional Courses

- recreational lessons
- personal interest courses
- driving lessons

Personal Care

- haircuts and styling
- other hair grooming
- other personal grooming

Personal Transportation

- taxi
- local moving and delivery
- long-distance moving
- air travel
- highway bus
- package tours and sightseeing

Household Services

- postal services
- funerals
- domestic cleaning
- coin laundries
- veterinarian

Professional Services

- legal
- accounting
- engineering
- architectural

Financial Services

- counselling fees
- service charges
- safety deposits boxes
- income tax preparation

BUSINESS SERVICES

Mineral Industry

- contract prospecting
- contract drilling
- seismographic surveys
- geophysical surveys
- contract mine development
- contract overburden removal
- assaying

Transportation Industry

- air cargo, express and freight
- aerial surveying and photography
- aircraft maintenance
- freight and cartage (container, express, bulk)
- coastal shipping
- ship chartering
- marine towing and docking
- cargo handling

- port facilities fees
- pilotage fees
- marine salvaging
- customs brokerage
- pier, dock and wharf maintenance
- moving
- vehicle towing
- freight forwarding
- crating and packing
- weigh station tolls
- storage (cold, bonded, warehousing)
- garbage collection and disposal (refuse, liquid, hazardous waste)
- armoured car

Postal and Courier Services

- general postage
- post office boxes
- mail service contracts
- courier (messenger, pick-up and delivery)

Miscellaneous Services

- employment and placement agencies
- personnel suppliers (contract, industrial, office)
- computer services (consulting, processing, programming, time-sharing)
- accounting, bookkeeping, auditing and tax compilation
- advertising (consulting, placement, research, promotion)
- architectural services and consulting
- engineering services and consulting
- drafting
- laboratory testing

- surveying
- legal services (barrister, solicitor, notary, patent attorney)
- management consulting (business, financial, office systems, organization, personnel)
- security and investigation (patrol, investigation, security alarm)
- credit bureau (rating, reporting)
- collection agencies
- actuarial
- appraisals
- convention and trade shows
- fund raising
- mailing lists and directory compilation
- graphic design
- interior design
- inventory taking
- marketing research
- telephone soliciting
- personnel training
- catering
- video production
- motion picture distribution
- band, orchestra and entertainer services
- extermination and pest control
- janitorial
- travel arranging
- auctioneering
- parking
- lecturers and speakers

REAL PROPERTY

Commercial

- **industrial, commercial and institutional construction, property development and general contracting**
- **sub-contracting trades**
- **land assembly and subdivisions**
- **construction and repair of highway, streets, bridges, water and sewer, breakwaters, dams and docks**
- **wrecking and demolition**
- **well drilling**
- **excavating and grading**
- **asphalt paving**
- **landscaping**
- **piledriving**
- **form work**
- **steel reinforcing**
- **concrete pouring and finishing**
- **precast concrete**
- **project management**
- **resales of existing industrial, commercial and institutional properties**
- **non-residential rents**

Residential

- **maintenance and repair**
- **sales of new residential property**
- **real estate commissions**

Appendix D

FEDERAL-PROVINCIAL FISCAL TRANSFERS

INTRODUCTION

The Province of Newfoundland recognizes and endorses the vital role of the federal-provincial transfer arrangements in Canada. Indeed, the programs exert a cohesive influence which strengthens the very existence of this country. These arrangements bridge the gap arising from imbalances in provincial revenue raising capacity and expenditure responsibilities. Federal transfer payments are essential for the equitable provision of basic public services to Canadians throughout the country.

The importance of the federal transfer arrangements is reflected in the 1982 amendments to the Canadian Constitution. Section 36 of The Constitution Act, 1982 specifies the commitments of both orders of government, as follows:

- (1) Without altering the legislative authority of Parliament or of the provincial legislatures, or the rights of any of them with respect to the exercise of their legislative authority, Parliament and the legislatures, together with the government of Canada and the provincial governments, are committed to
 - (a) promoting equal opportunities for the well-being of Canadians;
 - (b) furthering economic development to reduce disparity in opportunities; and
 - (c) providing essential public services of reasonable quality to all Canadians.
- (2) Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

The Federal Government provides financial assistance to the provinces through unconditional grants, blockfund transfers and cost-sharing arrangements. There are three primary programs through which the Federal Government offers financial assistance to the provinces. The Equalization Program provides unconditional grants to the seven less affluent provinces. Blockfund transfers are made to all provinces in support of health and post-secondary education programs through the Established Programs Financing (EPF) arrangements. Through the Canada Assistance Plan (CAP), the Federal Government pays one-half of eligible provincial social assistance and welfare expenditures.

The federal transfer programs make a critical contribution to the provision of basic public services in Newfoundland and Labrador. The federal component also is essential to maintaining the fiscal integrity of the Province, as federal transfers represent almost one-half of provincial revenues.

TRENDS

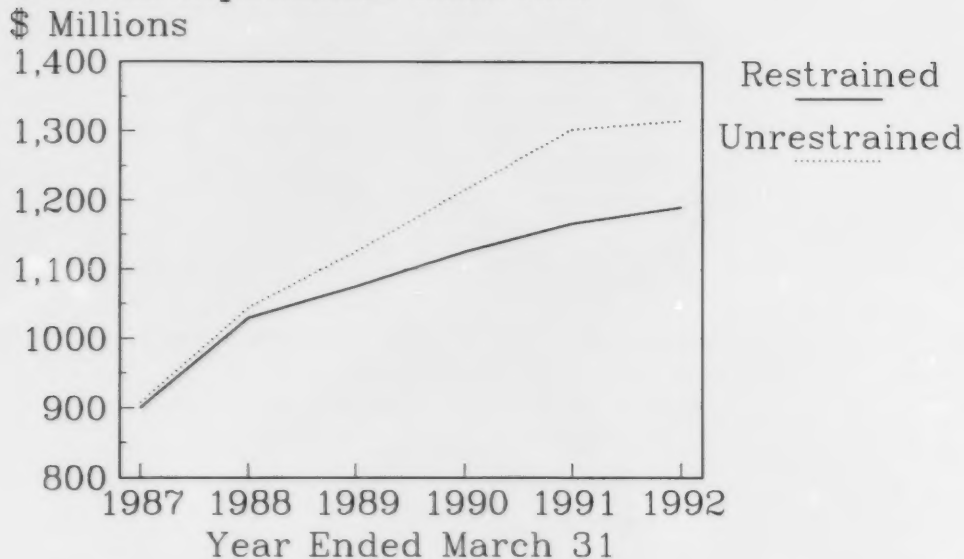
Federal transfers to the provinces have continued to grow over the past decade, however, this growth has been curtailed on numerous occasions. Federal transfer restraint measures have been particularly onerous in recent years, especially for the less affluent provinces. In fact, there are indications of an increasing proportion of federal transfers accruing to the wealthier provinces. The current federal-provincial transfer arrangements are not structured in a way that will reverse this unfortunate trend.

The two major federal restraint measures are a ceiling on the growth of equalization entitlements and a freeze on the total EPF entitlement. The equalization ceiling limits the growth of provincial entitlements to the rate of national economic growth from the 1987 base year. Current estimates reveal that the ceiling has reduced Newfoundland equalization entitlements by \$187 million for fiscal years 1988-89 to 1991-92. Total savings derived by the Federal Government from the equalization ceiling during this period amount to \$3.6 billion.

The 1990 Federal Budget imposed a two-year freeze on EPF transfers which was extended for a further three years in the 1991 Budget. The EPF freeze will cost this Province \$19 million in 1990-91 and \$34 million in 1991-92. Given the mechanics of the EPF arrangements, the Province actually will experience a decrease in EPF cash transfers. In fact, if the current trend persists one can foresee the disappearance of the EPF cash transfer early in the next decade. The EPF freeze is the latest in a succession of EPF restraint measures dating back to 1982. The estimated cumulative impact on this Province of these EPF measures is \$110 million in 1990-91, escalating to \$145 million next year.

Figure D-1 illustrates the divergence of restrained and unrestrained transfer growth for equalization and EPF combined. Federal restraint measures implemented since 1986 have reduced transfers to this Province by more than \$400 million. These reductions result from the two percentage point EPF growth rate reduction commencing in 1986-87, the EPF freeze commencing in 1990-91 and the equalization ceiling. Indeed, by the end of 1991-92 adjustments to the equalization and EPF programs since 1982 will have reduced estimated cash entitlements to this Province by more than \$750 million.

Figure D-1
Newfoundland Impact of Federal Transfer
Restraint Implemented Since 1986

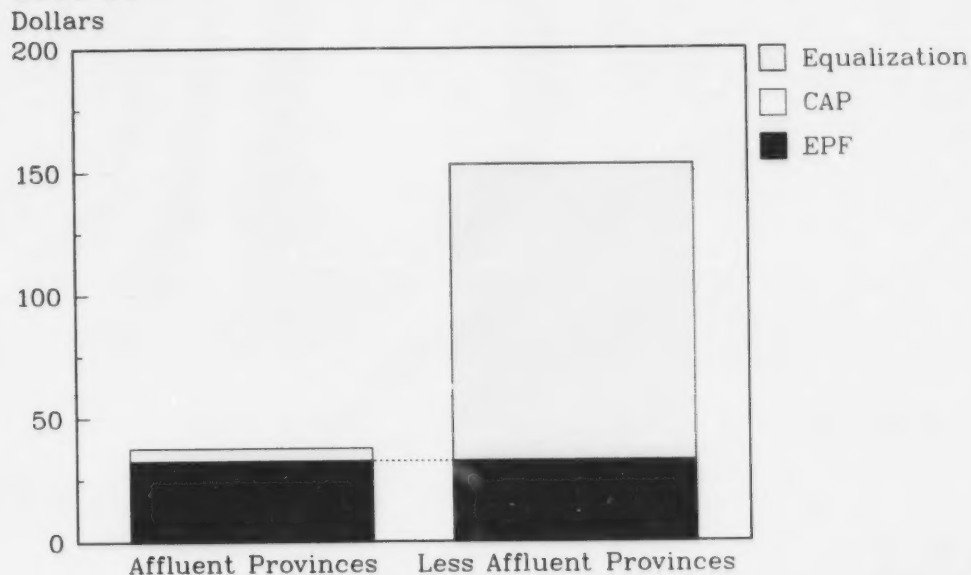


In contrast to the magnitude of restraint apparent in equalization and EPF transfers, a smaller measure of restraint has been applied to CAP. The equalization recipient provinces are not affected by this measure. Rather, CAP entitlements for each of the three wealthier provinces are subject to an annual growth rate ceiling of five percent. The Federal Government in its 1990 Budget estimated that the CAP measure will save them an estimated \$75 million this year and \$80 million in 1991-92. As with the other elements of the federal Expenditure Control Plan, this restraint has been extended for another three years with an estimated 1992-93 cost of \$365 million for the three wealthier provinces. Figure D-2 illustrates the per capita distribution of transfer restraint arising from the 1990 Federal Budget and the equalization ceiling, on the affluent provinces (Ontario, Alberta and British Columbia) and less affluent provinces (Newfoundland, the Maritimes, Quebec, Manitoba and Saskatchewan).

ISSUES

The federal-provincial fiscal arrangements are regularly reviewed at five-year intervals. The current review process is well under way and will culminate in the renewal of the programs for April 1, 1992. This process provides the forum for the review of the Equalization Program, EPF arrangements, Tax Collection Agreements and other transfer programs. During the current review process the federal-provincial discussions have been expanded beyond traditional parameters to include broader reform of fiscal federalism and broad fiscal and economic co-ordination issues. The desirability of federal-provincial efforts towards a broader review is reflected in the 1991 Federal Budget.

Figure D-2
Per Capita Impact of Federal Transfer Restraint
1990-91



The Federal Budget recognizes the merits of examining the system of federal-provincial financial arrangements including the major transfer programs and taxation issues. The Federal Government intends to engage in extensive discussions with the provinces concerning potential reforms to the major transfer programs (Equalization, EPF and CAP). In response to provincial concerns the Income Tax Collection Agreements are to be explored for possible reforms which could enhance their flexibility. As well, the Federal Government and the provinces are to embark on a joint study of cost pressures associated with such issues as duplication, overlap and government efficiency.

This Province welcomes the extended and expanded consultative process of the federal-provincial transfer programs review. The ongoing discussions for the updating and renewal of the Equalization Program are to be carried forward as an integral part of this broader reform effort. Throughout this process it is incumbent on all participants to pursue improvements to existing financial arrangements which would be consistent with the constitutional commitment to reduce provincial fiscal disparities and improve the federal-provincial fiscal balance.

The current federal-provincial review process provides an opportunity to discuss and resolve a number of issues which this Province regards as contrary to the objectives of the federal transfer programs. These concerns pertain specifically to the equalization renewal, expenditure need criteria, declining EPF cash transfers, and increased transfers to wealthier provinces. An elaboration of the Province's concerns in these areas follows.

Equalization Renewal

The magnitude and complexity of the Equalization Program dictate that the federal-provincial review process concentrate on the renewal of this program. This is a lengthy and arduous task, but it is time well spent. There are many fundamental and technical matters to be considered. This Province is particularly concerned with the equalization ceiling.

This Province regards the ceiling as inequitable and contrary to the spirit of the Equalization Program. The ceiling limits the growth of equalization transfers to the rate of growth of the national economy. The ceiling restricts financial assistance to the less affluent provinces despite increasing fiscal need. This is evident in the dramatic increase in the cost of the equalization ceiling which occurred as provincial economic circumstances rapidly deteriorated during the past year. For example, federal estimates from January 1990 indicated a Newfoundland ceiling impact of \$3 million for 1990-91 whereas the current estimate reveals that this cost has increased to \$69 million. Similarly, the total federal savings anticipated from all seven equalization recipient provinces for 1990-91 has grown from \$67 million to \$1.3 billion.

The equalization ceiling increasingly inhibits the responsiveness of the program to reflect widening fiscal disparities among provinces. The relative magnitude of federal expenditure restraint effected through the equalization ceiling compared to other federal restraint initiatives thrusts a disproportionate financial burden on the less affluent provinces. It is clear that the ceiling must be addressed immediately in the interests of equity and the preservation of the constitutional principle underlying the Equalization Program.

There are many priority issues to be addressed in the renewal of the Equalization Program, including the equalization tax bases and the issue of equalization tax backs. The tax bases to be reviewed include those for property taxes, consumption taxes, income taxes and natural resource revenues. Excessive equalization tax backs, such as the dollar for dollar loss associated with revenues from the Newfoundland offshore, are of concern to several provinces. While the ongoing intensive review will culminate in the renewal of the program for April 1, 1992, these efforts should be part of a continual process of refinement thereby enhancing the evolution of the Equalization Program.

Expenditure Need Criteria

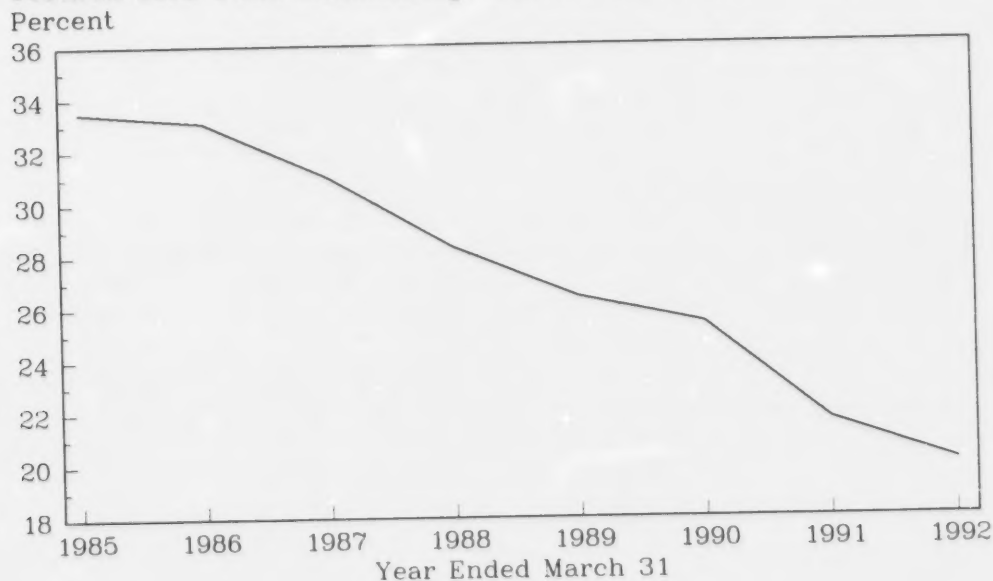
The Equalization Program provides financial assistance in relation to a province's per capita revenue raising capacity compared to the equalization standard. However, a province's ability to provide a reasonably comparable level of public services is influenced also by the different costs of program delivery experienced throughout the country as a result of geography and other factors. The incorporation of the concept of expenditure need would be a significant development. This

would be a logical progression in the evolution of the Equalization Program and should be part of the broader fiscal arrangements reform exercise.

Declining EPF Cash Transfers

The continued restraint of the EPF arrangements has resulted in the absolute decline of cash transfers. This makes it increasingly difficult, especially for the less affluent provinces, to provide adequate health care and post-secondary education programs. The current EPF freeze, which will cost Newfoundland more than \$50 million for 1990-91 and 1991-92, has been extended for a further three years. By 1992-93 the Province will receive less EPF cash than the level received a decade earlier. Figure D-3 illustrates the declining EPF cash contribution to the Province's health and post-secondary education costs.

Figure D-3
EPF Cash Transfers as a Percent of Newfoundland
Health and Post-Secondary Education Costs



Newfoundland is concerned about the decreasing federal financial support for provincial health and post-secondary education programs. The EPF cash transfer could disappear as early as the year 2003 if the current trend persists. Even with the expiration of the EPF freeze in 1995, the adequacy of EPF support growing at a rate three percentage points slower than economic growth will remain very questionable.

Increased Transfers to Wealthier Provinces

There are indications of a shift in the proportion of federal transfers from the less affluent provinces to the wealthier provinces. The factors underlying this shift relate to federal expenditure restraint initiatives and the nature of the federal transfers. The EPF restraint measures apply equally across the country regardless of provincial fiscal capacity to absorb the cutbacks, while the burden of the equalization ceiling is borne solely by the less affluent provinces. As well, the level of federal financial support available under the cost-shared programs is heavily influenced by the provincial capacity to spend in the eligible program areas.

Federal expenditure restraint and transfer programs must maintain regional sensitivity. Corrective action is required to restore a more appropriate balance in federal financial assistance for the provinces.

CONCLUSION

The network of federal transfer programs is fundamental to the Canadian federation. Nowhere is the importance of the federal transfer programs more evident than in Newfoundland and Labrador where they constitute almost one-half of provincial revenues.

This Province believes that a strong central government is essential to the effective operation of the federal-provincial transfer arrangements. The central government must be capable of recognizing any deficiencies in the existing arrangements and it must be prepared and able to initiate corrective action wherever necessary. In this regard the Province has identified a number of issues which the Federal Government must address in order to preserve, restore and enhance the effectiveness of the federal transfer programs. The issues relate to the renewal of the Equalization Program, the development of expenditure need criteria, the declining EPF cash transfers, and the increasing transfer share to wealthier provinces.

This Province is eager to continue working co-operatively with the Federal Government and all other provinces to maximize the efficiency and efficacy of the federal-provincial transfer arrangements. The expansion and extension of the current review exercise as expressed in the Federal Budget will greatly facilitate this process. Transfer payments are the mechanism by which the Federal Government pursues the provision of equal opportunities and equitable services to all Canadians irrespective of their region of residence. The Province firmly believes that regional balance is a fundamental principle of federal transfer programs which must be upheld in the renewal of the fiscal arrangements.

BUDGET 1991

STATEMENTS:

	Page
I Summary of Borrowing Requirements and Sources of Funds	i
II Comparative Summary of Current and Related Revenues	ii
III Summary of Current and Capital Account Expenditures	iii
IV Summary of Current Account Expenditures	iv
V Summary of Capital Account Expenditures	v
VI Summary of Related Revenues and Expenditures by Main Object and Sector	vi

EXHIBITS:

I Selected Economic Statistics 1987-1990	vii
II Estimated Provincial and Federal Revenues 1991-92 (Estimates) and 1990-91 (Revised)	viii
III Current and Capital Revenues by Provincial and Federal Sources 1987-88 to 1991-92	ix
IV Expenditure Summary 1991-92 (Estimated) and 1990-91 (Revised)	x
V Public Sector Debt as at March 31, 1987-1991	xi
VI Summary and Chart — "Where the Money Comes From"	xii
VII Summary and Chart — "Where the Money Goes"	xiii
VIII Summary and Chart — Capital Account Expenditures	xiv
IX Summary and Chart — Gross Government Expenditure	xv
X Summary of Budgetary Financing Sources	xvi
XI Summary of Salary Costs by Department	xvii
XII Estimated Interest and Debt Retirement 1991-92	xviii
XIII Details of Capital Expenditures	xxi

STATEMENT I
NEWFOUNDLAND AND LABRADOR
SUMMARY OF BORROWING REQUIREMENTS AND SOURCES OF FUNDS
1991-92 and 1990-91 (Revised)

	1991-92 Estimates		1990-91 Revised	
	(\$000)	(\$000)	(\$000)	(\$000)
BUDGETARY REQUIREMENTS				
Current Account:				
Gross Expenditure	3,096,041		2,995,724	
Related Revenues	<u>369,081</u>		<u>310,141</u>	
Net Expenditure	2,726,960		2,685,583	
Provincial and Federal Revenues	<u>2,673,170</u>		<u>2,568,365</u>	
Financial Contribution		53,790		117,218
Capital Account:				
Gross Expenditure	417,989		357,324	
Related Revenues	<u>176,652</u>		<u>97,552</u>	
Net Expenditure		<u>241,317</u>		<u>259,772</u>
TOTAL BUDGETARY REQUIREMENTS		<u>295,187</u>		<u>376,990</u>
NON-BUDGETARY TRANSACTIONS				
DEBT RETIREMENT				
Redemptions (See Appendix II)	215,396		174,007	
Sinking Funds (See Appendix II)	<u>63,688</u>		<u>63,906</u>	
		<u>279,084</u>		<u>237,913</u>
TOTAL BORROWING REQUIREMENTS		<u>574,201</u>		<u>614,903</u>
SOURCES OF BORROWINGS				
General Borrowings (Note 1)		534,201		574,471
Canada Pension Plan		<u>40,000</u>		<u>40,432</u>
TOTAL SOURCES		<u>574,201</u>		<u>614,903</u>

Note 1: General borrowings include capital market issues, short term credit and treasury bills.

STATEMENT II
COMPARATIVE SUMMARY OF CURRENT AND RELATED REVENUES
1991-92 Estimates and 1990-91 Revised

	1991-92 Estimates	1990-91 Revised
	(\$000)	(\$000)
PROVINCIAL:		
Taxation:		
Retail Sales Tax	586,000	561,000
Personal Income Tax	468,200	446,500
Gasoline Tax	98,700	87,000
Corporate Income Tax	54,800	55,400
Tobacco Tax	55,000	51,000
Mining Tax and Royalties	19,600	22,000
Health and Post-Secondary Education Tax	42,500	28,600
Other	20,515	19,600
	<u>1,345,115</u>	<u>1,271,100</u>
General Revenues:		
Newfoundland Liquor Corporation	80,500	80,000
Vehicle and Drivers Licences	30,616	29,000
Lottery Revenues	20,000	19,000
Registry of Deeds	9,500	7,800
Fines and Forfeitures	8,000	5,900
Other	15,395	13,921
	<u>164,011</u>	<u>155,621</u>
Expenditure Programs — Related Revenues:		
Recoveries — Sinking Fund Surpluses	67,309	27,572
Interest Income	29,458	25,521
Other	69,298	69,732
	<u>166,065</u>	<u>122,825</u>
TOTAL: PROVINCIAL REVENUES	<u>1,675,191</u>	<u>1,549,546</u>
GOVERNMENT OF CANADA:		
Fiscal Transfer Payments:		
Equalization Payments	933,900	912,000
Established Programs Financing Grant	210,400	210,800
Provincial Share of Utility Companies Tax	10,000	9,100
Term 29 Award	8,000	8,000
Statutory Subsidies	1,744	1,744
	<u>1,164,044</u>	<u>1,141,644</u>
Cost Shared Programs:		
Canada Assistance Plan	129,429	121,237
Resource	31,766	23,848
Offshore Fund	4,176	3,517
Manpower Training	12,828	13,767
Native Peoples	2,002	1,911
Other	22,815	23,036
	<u>203,016</u>	<u>187,316</u>
TOTAL: GOVERNMENT OF CANADA REVENUES	<u>1,367,060</u>	<u>1,328,960</u>
TOTAL: CURRENT AND RELATED REVENUES	<u>3,042,251</u>	<u>2,878,506</u>

STATEMENT III
SUMMARY OF CURRENT AND CAPITAL ACCOUNT EXPENDITURES
1991-92 and 1990-91 Revised

	1991-92			1990-91
	Gross Expenditure	Related Revenue	Net Expenditure	Revised (Net)
	\$	\$	\$	\$
General Government Sector				
Consolidated Fund Services	590,258,700	108,235,100	482,023,600	483,435,800
Executive Council	14,289,500	157,800	14,131,700	15,078,200
Finance	55,352,200	6,002,300	49,349,900	43,853,700
Legislature	9,488,200	400,200	9,088,000	9,533,000
Public Service Commission	3,922,900	158,200	3,764,700	3,456,800
Works, Services and Transportation	294,097,100	80,433,000	213,664,100	226,244,300
Resource Sector				
Development	168,987,500	91,414,500	77,573,000	73,519,300
Environment and Lands	25,006,800	3,236,800	21,770,000	20,964,700
Fisheries	40,778,100	15,316,900	25,461,200	30,643,900
Forestry and Agriculture	53,536,500	18,603,600	34,932,900	38,715,900
Mines and Energy	16,094,600	1,294,200	14,800,400	24,269,400
Social Sector				
Education	796,805,100	35,040,900	761,764,200	745,492,000
Employment and Labour Relations	24,721,600	5,018,600	19,703,000	18,561,000
Health	871,217,800	33,863,900	837,353,900	812,304,600
Justice	105,178,600	5,452,700	99,725,900	94,643,900
Municipal and Provincial Affairs	168,474,300	22,323,100	146,151,200	144,830,900
Newfoundland and Labrador Housing Corporation	16,780,000	3,875,000	12,905,000	11,665,000
Social Services	259,020,800	114,905,900	144,114,900	148,142,200
TOTAL	3,514,010,300	545,732,700	2,968,277,600	2,945,354,600

AMOUNT TO BE VOTED 1991-92

Gross Current and Capital Expenditure		\$3,514,010,300
Less: Expenditures Approved by Statute:		
Interest	515,100,800	
Pensions and Gratuities	53,785,300	
Rental Purchases	267,400	
Debt Management Expenses	10,146,900	
Issues under Guarantee	2,325,000	
Salaries (Comptroller General and Auditor General)	189,500	
Amount to be voted by Supply Bill		2,932,195,400

STATEMENT IV
SUMMARY OF CURRENT ACCOUNT EXPENDITURES
1991-92 and 1990-91 Revised

	1991-92			1990-91
	Gross Expenditure	Related Revenue	Net Expenditure	Revised (Net)
	(\$000)	(\$000)	(\$000)	(\$000)
General Government Sector				
Consolidated Fund Services	587,934	108,234	479,700	464,837
Executive Council	14,070	158	13,912	14,878
Finance	55,217	4,317	50,900	45,463
Legislature	9,488	400	9,088	9,533
Public Service Commission	3,923	158	3,765	3,457
Works, Services and Transportation	153,863	11,176	142,687	142,113
Resource Sector				
Development	58,307	21,472	36,835	36,737
Environment and Lands	23,954	2,684	21,270	20,190
Fisheries	23,769	5,787	17,982	17,751
Forestry and Agriculture	45,140	13,960	31,160	33,273
Mines and Energy	16,046	1,294	14,752	24,180
Social Sector				
Education	736,615	23,393	713,222	700,912
Employment and Labour Relations	24,722	5,019	19,703	18,561
Health	836,950	31,619	805,331	794,206
Justice	102,894	5,453	97,441	92,983
Municipal and Provincial Affairs	130,848	15,156	115,692	114,031
Newfoundland and Labrador Housing Corporation	16,780	3,875	12,905	11,665
Social Services	255,521	114,906	140,615	140,813
TOTAL	<u>3,096,041</u>	<u>369,081</u>	<u>2,726,960</u>	<u>2,685,583</u>

STATEMENT V
SUMMARY OF CAPITAL ACCOUNT EXPENDITURES
1991-92 and 1990-91 Revised

	1991-92			1990-91
	Gross Expenditure	Related Revenue	Net Expenditure	Revised (Net)
	(\$000)	(\$000)	(\$000)	(\$000)
General Government Sector				
Consolidated Fund Services	2,325	1	2,324	18,599
Executive Council	219	-	219	200
Finance	135	1,685	(1,550)	(1,609)
Works, Services and Transportation	140,234	69,257	70,977	84,131
Resource Sector				
Development	110,680	69,943	40,737	36,782
Environment and Lands	1,053	552	501	774
Fisheries	17,009	9,530	7,479	12,893
Forestry and Agriculture	8,396	4,624	3,772	5,443
Mines and Energy	49	-	49	90
Social Sector				
Education	60,190	11,648	48,542	44,580
Health	34,268	2,245	32,023	18,099
Justice	2,285	-	2,285	1,661
Municipal and Provincial Affairs	37,626	7,167	30,459	30,800
Social Services	3,500	-	3,500	7,329
TOTAL	417,960	176,652	241,317	259,772

Note: For details refer to Appendix III.

STATEMENT VI
SUMMARY OF RELATED REVENUES AND EXPENDITURES
BY MAIN OBJECT AND SECTOR
1991-92 and 1990-91 Revised

	General Government Sector 1991/92 (\$000)	Resource Sector 1991/92 (\$000)	Social Sector 1991/92 (\$000)	Total 1991/92 (\$000)	% of 1991/92 Total %	Total 1990/91 Revised (\$000)
Current:						
Salaries	94,063	55,176	160,322	309,561	10.0	315,085
Employee Benefits	91,439	158	310	91,907	3.0	68,754
Transportation and Communications	10,212	10,028	16,037	36,277	1.2	35,873
Supplies	38,402	11,332	15,442	65,176	2.1	64,190
Professional Services	22,634	7,516	58,248	88,398	2.9	83,373
Purchased Services	41,153	20,282	16,890	78,325	2.5	72,065
Property, Furnishings and Equipment	232	1,691	2,164	4,087	0.1	3,828
Loans, Advances and Investments	10	-	-	10	0.0	110
Allowances and Assistance	3,800	198	265,226	269,224	8.7	253,257
Grants and Subsidies	5,880	60,835	1,568,716	1,635,431	52.8	1,618,082
Debt Expenses	516,670	-	975	517,645	16.7	481,107
Gross Current Expenditure	824,495	167,216	2,104,330	3,096,041	100.0	2,995,724
Federal Revenue Sources	1,867	34,621	166,528	203,016	55.0	187,316
Provincial Revenue Sources	122,576	10,596	32,893	166,065	45.0	122,825
Total Current Related Revenues	124,443	45,217	199,421	369,081	100.0	310,141
Net Current Expenditure	700,052	121,999	1,904,909	2,726,960		2,685,583
Capital:						
Salaries	11,305	280	34	11,619	2.8	11,306
Employee Benefits	15	-	-	15	0.0	9
Transportation & Communications	1,692	20	9	1,721	0.4	1,560
Supplies	2,157	77	2	2,236	0.5	1,895
Professional Services	573	225	-	798	0.2	734
Purchased Services	98,280	435	1,500	100,215	24.0	95,007
Property, Furnishings and Equipment	63,957	10,010	25,965	99,932	23.9	75,166
Loans, Advances and Investments	2,325	30,464	350	33,139	7.9	64,840
Grants and Subsidies	458	95,484	71,183	167,125	40.0	105,450
Debt Expenses	766	-	403	1,169	0.3	1,357
Expenditure by Sector before Recharges	181,528	136,995	99,446	417,969	100.0	357,324
Voted in Other Departments & Divisions	7,651	192	38,298	46,141		26,919
Provided in Other Departments	135	-	125	260		650
Recharged to Other Departments & Divisions	(46,401)	-	-	(46,401)		(27,569)
Gross Capital Expenditure	142,913	137,187	137,869	417,969		357,324
Federal Revenue Sources	68,802	71,209	19,840	159,851	90.5	81,897
Provincial Revenue Sources	2,141	13,440	1,220	16,801	9.5	15,655
Total Capital Related Revenues	70,943	84,649	21,060	176,652	100.0	97,552
Net Capital Expenditure	71,970	52,538	116,809	241,317		259,772
Total Net Expenditure	772,022	174,537	2,021,718	2,968,277		2,945,355

EXHIBIT I
SELECTED ECONOMIC STATISTICS
1987 to 1990

	1990	% Change	1989	% Change	1988	% Change	1987
Population (000's) — as of June 1	573	0.4	571	0.4	569	0.1	568
Gross Domestic Product (\$ Millions) *	7,912 *	5.2	7,523	7.2	7,017	5.7	6,641
Total Personal Income (\$ Millions)	9,087 *	6.1	8,563	7.0	8,006	9.8	7,290
Per Capita Personal Income (\$)	15,859 *	5.8	14,996	6.5	14,075	9.7	12,832
Labour Force (000's) (Annual Average)	242	1.7	238	3.0	231	3.6	223
Employment (000's) (Annual Average)	201	0.0	201	4.1	193	5.5	183
Unemployment Rate (%) (Annual Average)	17.1	8.2	15.8	-3.7	16.4	-8.4	17.9
Wages and Salaries (\$ Millions)	4,530 *	4.2	4,346	7.1	4,056	9.1	3,719
Consumer Price Index (1986 = 100) (Annual Average)	113.9	4.3	109.2	3.7	105.3	2.3	102.9
Total Volume of Fish Landings (Thousands of Metric Tonnes) (Roundweight)	459.2	-11.2	517.0	-7.4	558.4	11.9	499.1
Total Value of Fish Landings (\$ Millions)	240.6	-8.0	261.6	-8.9	287.1	3.0	278.7
Pulpwood Production (000 Cubic Metres)	1,719	-1.6	1,747	-6.8	1,875	5.6	1,776
Iron Ore Shipments (Millions of Metric Tonnes)	20.0	-3.4	20.7	0.8	20.5	11.3	18.4
Gross Value of Manufacturing Shipments (\$ Millions)	1,428 *	-5.4	1,510	-10.3	1,683	1.7	1,655
Private and Public Investment (\$ Millions)	2,799 *	2.3	2,736	5.9	2,584	5.6	2,447
Dwelling Starts (Number)	3,245	-8.2	3,536	11.6	3,168	18.1	2,682
Retail Trade (\$ Millions)	3,615 *	3.0	3,509	6.9	3,283	11.6	2,941
New Motor Vehicle Sales (\$ Millions)	373 *	-13.3	430	0.6	428	13.0	379

Note: Some data is preliminary.

* Forecast

** GDP at Factor Cost

Source: Statistics Canada; Newfoundland Statistics Agency and
Economic Research and Analysis Division, Cabinet Secretariat

EXHIBIT II
ESTIMATED PROVINCIAL AND FEDERAL REVENUES
1991-92 and 1990-91 Revised

	1991-92 Estimates	1990-91 Revised
	(\$000)	(\$000)
PROVINCIAL TAX SOURCES:		
Retail Sales Tax	586,000	561,000
Personal Income Tax	468,200	446,500
Gasoline Tax	98,700	87,000
Corporate Income Tax	54,600	55,400
Tobacco Tax	55,000	51,000
Mining Tax and Royalties	19,600	22,000
Health and Post-Secondary Education Tax	42,500	28,600
Insurance Companies Tax	13,000	12,600
Corporate Capital Tax	5,475	5,100
Forest Management Tax	1,675	1,560
Mineral Holdings Tax	355	330
Pari-Mutuel Tax	10	10
TOTAL: Provincial Tax Sources	1,345,115	1,271,100
OTHER PROVINCIAL SOURCES:		
Newfoundland Liquor Corporation	80,500	80,000
Vehicle and Driver Licences	30,616	29,000
Lottery Revenues	20,000	19,000
Registry of Deeds	9,500	7,800
Fines and Forfeitures	8,000	5,900
Inland Fish and Game Licences	2,409	2,345
Newfoundland Liquor Licensing Board	2,400	2,300
Registry of Bills and Sales	2,150	2,060
Crown Lands	1,620	1,550
Mining Royalties and Fees	1,395	1,320
Forestry Royalties and Fees	1,300	1,220
Health Fees and Certificates	750	546
Lottery Licences	635	650
Park Permits	860	650
Insurance Companies, etc.	440	430
Other	1,436	850
TOTAL: Other Provincial Sources	164,011	155,621
TOTAL: PROVINCIAL SOURCES	1,509,126	1,426,721
GOVERNMENT OF CANADA:		
Equalization	933,900	912,000
Established Programs Financing	210,400	210,800
PUITTA	10,000	9,100
Term 29 Award	8,000	8,000
Statutory Subsidies	1,744	1,744
TOTAL: GOVERNMENT OF CANADA	1,164,044	1,141,644
TOTAL: PROVINCIAL AND FEDERAL REVENUES	2,673,170	2,568,365

EXHIBIT III
CURRENT AND CAPITAL REVENUES
PROVINCIAL AND FEDERAL SOURCES
1987-88 to 1991-92

	1991-92 Estimates		1990-91 Revised		1989-90 Unaudited		1988-89 Audited		1987-88 Audited	
	(\$000)	%	(\$000)	%	(\$000)	%	(\$000)	%	(\$000)	%
Current Revenues:										
Provincial Sources	1,675,191	55.1	1,549,546	53.8	1,484,536	52.2	1,333,495	51.3	1,253,750	51.7
Federal Sources	1,367,060	44.9	1,328,960	46.2	1,359,626	47.8	1,266,934	48.7	1,171,137	48.3
Total: Current Revenues	3,042,251	100.0	2,878,506	100.0	2,844,162	100.0	2,600,429	100.0	2,424,887	100.0
Capital Revenues:										
Provincial Sources	16,801	9.5	15,655	16.0	20,777	23.8	16,062	25.1	73,697	61.1
Federal Sources	159,851	90.5	81,897	84.0	66,362	76.2	47,906	74.9	46,973	38.9
Total: Capital Revenues	176,652	100.0	97,552	100.0	87,139	100.0	63,968	100.0	120,670	100.0
Current and Capital Revenues:										
Provincial Sources	1,691,992	52.6	1,565,201	52.6	1,505,313	51.4	1,349,557	50.7	1,327,447	52.1
Federal Sources	1,526,911	47.4	1,410,857	47.4	1,425,988	48.6	1,314,840	49.3	1,218,110	47.9
Total: Current and Capital Revenues	3,218,903	100.0	2,976,058	100.0	2,931,301	100.0	2,664,397	100.0	2,545,557	100.0

EXHIBIT IV
EXPENDITURE SUMMARY
1991-92 Estimated

Head	Total		Current		Capital	
	Gross	Net	Gross	Net	Gross	Net
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
Consolidated Fund Services	590,259	482,024	587,934	479,700	2,325	2,324
Executive Council	14,289	14,131	14,070	13,912	219	219
Finance	55,352	49,350	55,217	50,900	135	(1,550)
Legislature	9,488	9,088	9,488	9,088	-	-
Public Service Commission	3,923	3,765	3,923	3,765	-	-
Works, Services and Transportation	294,097	213,664	153,863	142,687	140,234	70,977
Development	168,987	77,572	58,307	36,835	110,680	40,737
Environment and Lands	25,007	21,771	23,954	21,270	1,053	501
Fisheries	40,778	25,461	23,769	17,982	17,009	7,479
Forestry and Agriculture	53,536	34,932	45,140	31,160	8,396	3,772
Mines and Energy	16,095	14,801	16,046	14,752	49	49
Education	796,805	761,764	736,615	713,222	60,190	48,542
Employment and Labour Relations	24,722	19,703	24,722	19,703	-	-
Health	871,218	837,354	836,950	805,331	34,268	32,023
Justice	105,179	99,726	102,894	97,441	2,285	2,285
Municipal and Provincial Affairs	168,474	146,151	130,848	115,692	37,626	30,459
Newfoundland and Labrador Housing Corporation	16,780	12,905	16,780	12,905	-	-
Social Services	259,021	144,115	255,521	140,615	3,500	3,500
TOTAL	3,514,010	2,968,277	3,096,041	2,726,960	417,969	241,317

EXPENDITURE SUMMARY
1990-91 Revised

Consolidated Fund Services	549,165	483,436	530,565	464,837	18,600	18,599
Executive Council	15,259	15,078	15,059	14,878	200	200
Finance	49,926	43,854	49,672	45,463	254	(1,609)
Legislature	9,963	9,533	9,963	9,533	-	-
Public Service Commission	3,624	3,457	3,624	3,457	-	-
Works, Services and Transportation	284,848	226,244	153,052	142,113	131,796	84,131
Development	111,678	73,519	55,968	36,737	55,710	36,782
Environment and Lands	22,365	20,964	21,443	20,190	922	774
Fisheries	47,155	30,644	22,618	17,751	24,537	12,893
Forestry and Agriculture	54,416	38,716	45,459	33,273	8,957	5,443
Mines and Energy	24,388	24,270	24,298	24,180	90	90
Education	774,797	745,492	724,473	700,912	50,324	44,580
Employment and Labour Relations	23,434	18,561	23,434	18,561	-	-
Health	840,875	812,305	822,581	794,206	18,294	18,099
Justice	101,475	94,644	99,814	92,983	1,661	1,661
Municipal and Provincial Affairs	166,127	144,831	127,477	114,031	38,650	30,800
Newfoundland and Labrador Housing Corporation	15,915	11,665	15,915	11,665	-	-
Social Services	257,638	148,142	250,309	140,813	7,329	7,329
TOTAL	3,353,048	2,945,355	2,995,724	2,685,583	357,324	259,772

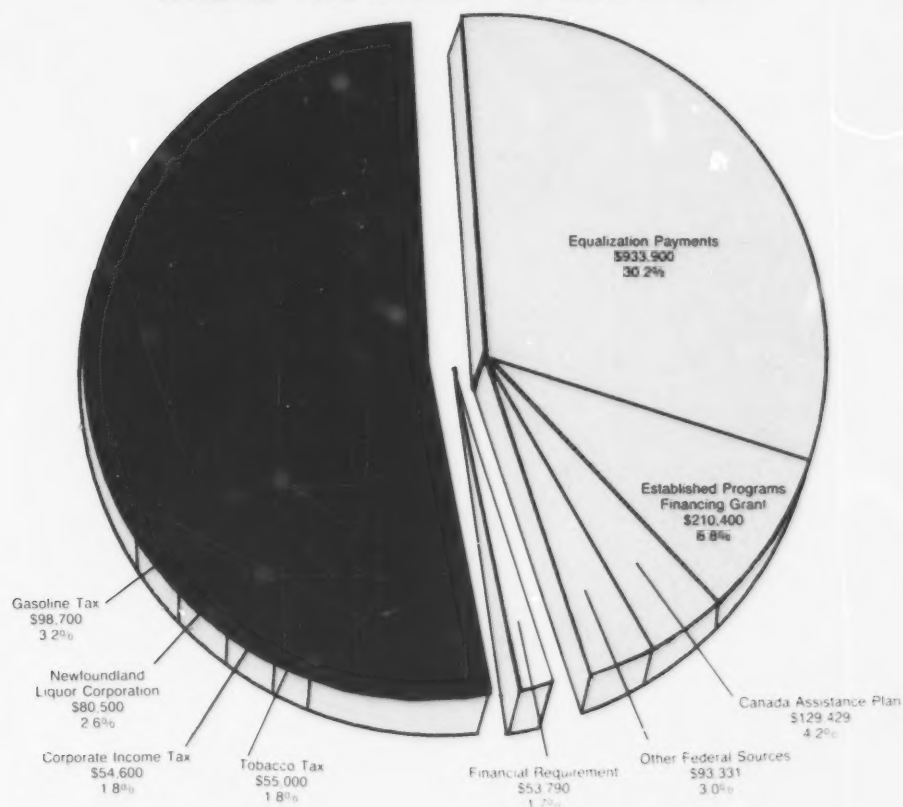
EXHIBIT V
PUBLIC SECTOR DEBT
1987 to 1991

	Five Years ending March 31				
	1991 *	1990	1989	1988	1987
	(Millions of dollars)				
Provincial Direct Debt:					
Payable in Canadian Dollars	1,624.9	1,652.4	1,532.0	1,435.5	1,340.7
Due Government of Canada	847.7	827.9	801.8	777.6	748.8
Payable in U.S. Dollars	1,567.8	1,384.1	1,332.1	1,476.5	1,553.2
Payable in Other Currencies	688.6	515.1	520.9	500.1	355.9
Total Direct Debenture Debt	4,729.0	4,379.5	4,186.8	4,189.7	3,998.6
Treasury Bills	130.0	130.0	130.0	130.0	130.0
Total Provincial Direct Debt	4,859.0	4,509.5	4,316.8	4,319.7	4,128.6
Crown Corporation and Other Debt:					
Utility	1,230.6	1,228.1	1,135.3	1,119.3	1,176.8
Housing	126.7	111.5	84.6	75.9	73.3
Municipal	627.9	590.0	559.8	525.4	515.4
Other	108.0	135.4	155.2	115.9	64.1
Total Crown Corporation and Other Debt	2,093.2	2,065.0	1,934.9	1,836.5	1,829.6
Deduct Sinking Funds held for Redemption of Debt:					
Provincial Obligations	1,238.6	1,131.5	1,120.6	1,029.8	981.1
Guaranteed Debt	360.0	315.7	286.1	261.8	242.4
Total Sinking Funds	1,598.6	1,447.2	1,406.7	1,291.6	1,223.5
Total Public Sector Debt (1)	5,353.6	5,127.3	4,845.0	4,864.6	4,734.7

* Forecast

(1) Debt payable in foreign currencies is shown at the Canadian dollar equivalent using the rates of exchange in effect on March 31 of each year.

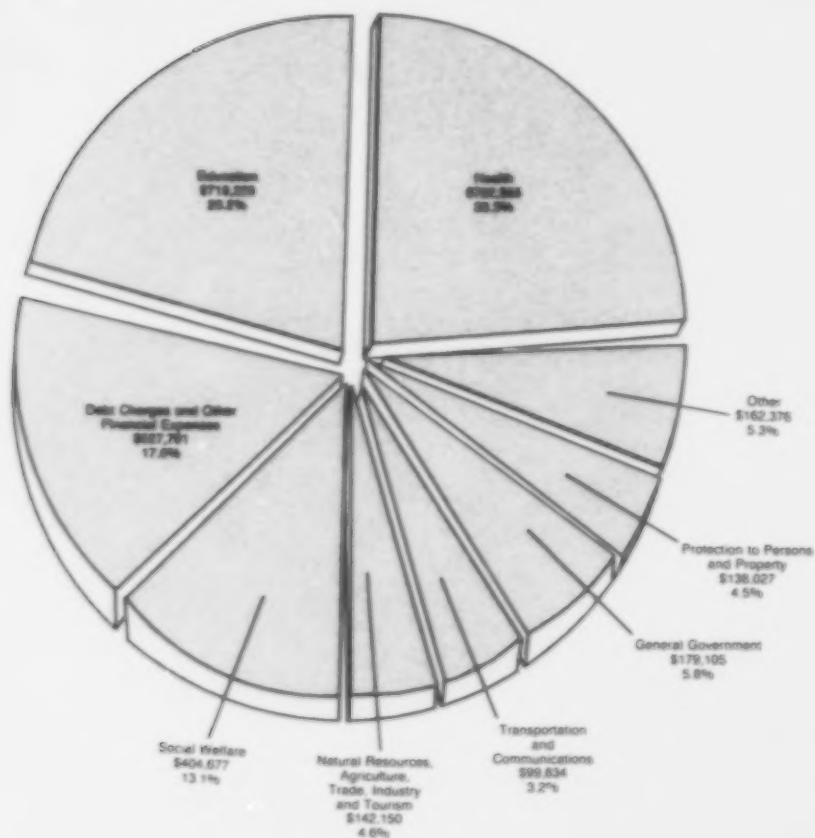
EXHIBIT VI
SUMMARY OF CURRENT REVENUES (By Source)
WHERE THE MONEY COMES FROM



Percentage of Total		Source	Amount (\$000)	
Revised 1990-91	Estimate 1991-92		Estimate 1991-92	Revised 1990-91
18.7	18.9	Provincial:		
14.9	15.1	Retail Sales Tax	586,000	561,000
2.9	3.2	Personal Income Tax	468,200	446,500
2.7	2.6	Gasoline Tax	98,700	87,000
1.8	1.8	Newfoundland Liquor Corporation	80,500	80,000
1.7	1.8	Corporate Income Tax	54,600	55,400
9.0	10.7	Tobacco Tax	55,000	51,000
		Other Provincial Sources	332,191	268,646
51.7	54.1	Total: Provincial	1,675,191	1,549,546
		Government of Canada:		
30.4	30.2	Equalization Payments	933,900	912,000
7.1	6.8	Established Programs Financing Grant	210,400	210,800
4.1	4.2	Canada Assistance Plan	129,429	121,237
2.8	3.0	Other Federal Sources	93,331	84,923
44.4	44.2	Total: Government of Canada	1,367,060	1,328,960
96.1	98.3	Total: Current Revenues	3,042,251	2,878,506
3.9	1.7	Financial Requirement	53,790	117,218
100.0	100.0	Total	3,096,041	2,995,724

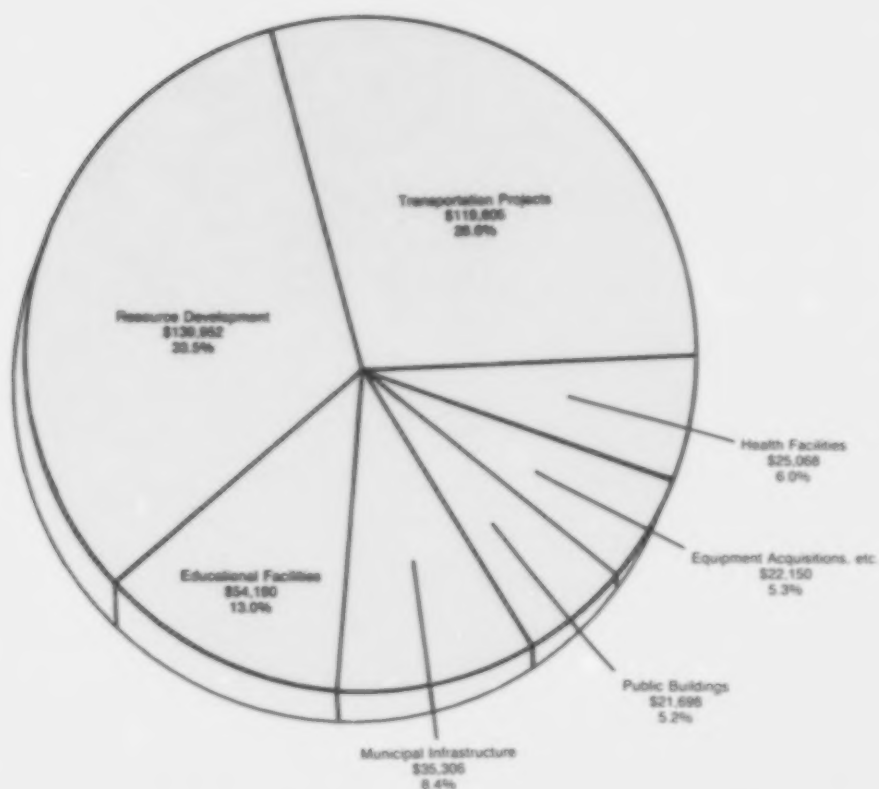
EXHIBIT VII
SUMMARY OF CURRENT ACCOUNT EXPENDITURE (By Function)

WHERE THE MONEY GOES



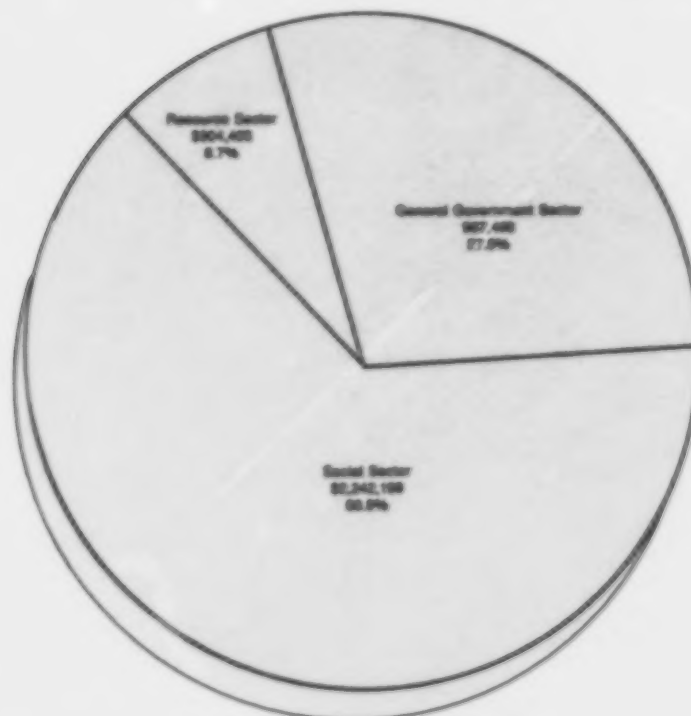
Percentage of Total		Function of Expenditure	Amount (\$000)	
Revised 1990-91	Estimate 1991-92		Estimate 1991-92	Revised 1990-91
23.6	23.2	Expenditure:		
23.8	23.3	Education	719,226	707,462
		Health	722,855	712,897
16.3	17.0	Debt Charges and Other Financial Expenses	527,791	488,639
13.0	13.1	Social Welfare	404,677	388,605
		Natural Resources, Agriculture, Trade, Industry and Tourism	142,150	147,316
4.9	4.6	General Government	179,105	160,258
5.4	5.8	Protection to Persons and Property	138,027	136,012
4.5	4.5	Transportation and Communications	99,834	98,624
3.3	3.2	Other	162,376	155,911
5.2	5.3			
100.0	100.0	Total: Expenditure	3,096,041	2,995,724

EXHIBIT VIII
SUMMARY OF GROSS CAPITAL ACCOUNT EXPENDITURE
(By Category)



Percentage of Total		Category of Capital Expenditure	Amount (\$000)	
Revised 1990-91	Estimate 1991-92		Estimate 1991-92	Revised 1990-91
30.5	33.5	Expenditure:		
31.4	28.6	Resource Development	139,952	109,035
12.0	13.0	Transportation Projects	119,605	112,380
10.1	8.4	Educational Facilities	54,190	42,783
2.4	6.0	Municipal Infrastructure	35,306	35,976
6.8	5.3	Health Facilities	25,068	8,495
6.8	5.2	Equipment Acquisitions, etc.	22,150	24,239
		Public Buildings	21,698	24,416
<u>100.0</u>	<u>100.0</u>	Total: Expenditure	<u>417,969</u>	<u>357,324</u>
22.9	38.3	Sources of Financing:		
4.4	4.0	Government of Canada Revenues	159,851	81,897
72.7	57.7	Provincial Revenues	16,801	15,655
<u>100.0</u>	<u>100.0</u>	Financial Requirement	241,317	259,772
		Total: Sources	<u>417,969</u>	<u>357,324</u>

EXHIBIT IX
SUMMARY OF GROSS GOVERNMENT EXPENDITURE
CURRENT and CAPITAL
(By Sector)



(TOTAL EXPENDITURE: \$3,514,010,300)

GROSS GOVERNMENT EXPENDITURE

	Estimate 1991-92 (\$000)	Percentage of Total %
Sector Expenditure		
General Government	967,408	27.5
Resource	304,403	8.7
Social	2,242,199	63.6
Total: Expenditure	3,514,010	100.0

GENERAL GOVERNMENT SECTOR

	Estimate 1991-92 (\$000)	Percentage of Total %
Consolidated Fund Services	580,250	16.0
Executive Council	14,200	0.4
Finance	55,352	1.5
Legislature	9,488	0.3
Public Service Commission	3,923	0.1
Works, Services & Transportation	294,087	0.4
Total: General Government Sector	967,409	27.5

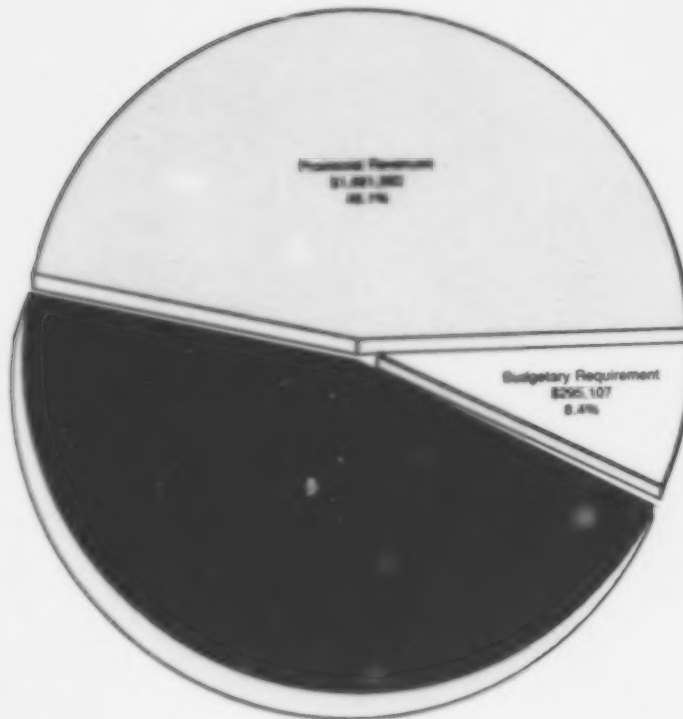
SOCIAL SECTOR

	Estimate 1991-92 (\$000)	Percentage of Total %
Education	796,805	32.6
Employment and Labour Relations	24,732	0.7
Health	671,219	34.8
Justice	106,179	3.0
Municipal and Provincial Affairs	108,474	4.8
Newfoundland and Labrador		
Housing Corporation	16,780	0.5
Social Services	259,021	7.4
Total: Social Sector	2,242,199	63.6

RESOURCE SECTOR

	Estimate 1991-92 (\$000)	Percentage of Total %
Development	188,987	4.0
Environment and Lands	25,007	0.7
Fisheries	40,778	1.2
Forestry and Agriculture	53,536	1.5
Mines and Energy	16,085	0.5
Total: Resource Sector	304,403	8.7

EXHIBIT X
SUMMARY OF BUDGETARY FINANCING SOURCES
(Current and Capital)



Percentage of Total		Category of Financing	Amount (\$000)	
Revised 1990-91	Estimate 1991-92		Estimate 1991-92	Revised 1990-91
48.7	48.1	Revenue Sources:		
42.1	43.5	Provincial	1,691,992	1,565,201
88.8	91.6	Federal	1,526,911	1,410,857
			3,218,903	2,976,058
		Budgetary Requirement:		
		Capital Account (Net Expenditure)	241,317	259,772
		Current Account (Net Requirement)	53,790	117,218
11.2	8.4	Total Budgetary Requirement	295,107	376,990
100.0	100.0	Total: Sources	3,514,010	3,353,048

EXHIBIT XI
SUMMARY OF SALARY COSTS BY DEPARTMENT
1991-92 and 1990-91 (Revised)

Department	1991-92 Estimates	1990-91 Revised
	\$	\$
Executive Council	8 385 800	8 162 000
Finance	11 936 900	11 793 200
Legislature	4 780 600	4 891 800
Public Service Commission	1 723 700	1 773 000
Works, Services and Transportation	78 540 600	79 625 600
Development	6 765 400	7 222 200
Environment and Lands	13 911 300	13 617 600
Fisheries	8 377 700	7 683 500
Forestry and Agriculture	19 069 600	18 780 300
Mines and Energy	7 332 100	7 019 900
Education	12 493 000	13 019 000
Employment and Labour Relations	7 170 600	7 041 800
Health	16 595 600	17 227 300
Justice	47 802 600	46 697 600
Municipal and Provincial Affairs	22 886 800	22 981 300
Social Services	53 406 900*	58 854 400*
TOTAL	<u>321 179 200</u>	<u>326 390 500</u>
Less: Capital Account Salary Expenditure	<u>11 618 500</u>	<u>11 305 800</u>
Total: Current Account Salary Expenditure	<u><u>309 560 700</u></u>	<u><u>315 084 700</u></u>

* Includes salary expenditures for employment initiatives under the Community Development and Employment Enhancement Programs (\$22,421,400, 1991-92 Estimates; \$26,277,900, 1990-91 Revised).

EXHIBIT XII

ESTIMATED INTEREST AND DEBT RETIREMENT 1991-92

Term	Series	Amount Outstanding	Interest Rate	Sinking Fund Rate	Interest	Sinking Fund	Debt Redemption
			%	%	\$	\$	\$
Payable in Canadian Dollars:							
1961/91	OO	5 000 000	6	1 $\frac{3}{4}$	150 000		
1966/91	3C	13 000 000	6 $\frac{1}{4}$	3	406 300		
1967/92	3E	10 000 000	6 $\frac{3}{4}$	2 $\frac{1}{2}$	675 000		
1967/92	3G	15 000 000	6 $\frac{1}{2}$	2 $\frac{1}{2}$	975 000	375 000	
1972/92	4F	1 624 000	8 $\frac{1}{4}$	1 $\frac{1}{2}$	134 000	24 400	
1972/93	4H	20 000 000	8 $\frac{1}{8}$	2	1 625 000	400 000	
1973/93	4J	20 000 000	8	2	1 600 000	400 000	
1973/94	4K	20 000 000	8 $\frac{1}{2}$	1 $\frac{1}{2}$	1 700 000	300 000	
1973/94	4L	20 000 000	8 $\frac{7}{8}$	1 $\frac{1}{2}$	1 775 000	300 000	
1974/95	4Q	15 000 000	10 $\frac{1}{2}$	1 $\frac{1}{2}$	1 575 000	225 000	
1975/96	4R	25 000 000	10	1 $\frac{1}{2}$	2 500 000	375 000	
1975/95	4U	20 000 000	10 $\frac{3}{8}$	1 $\frac{1}{2}$	2 075 000	300 000	
1975/96	4V	1 296 000	10 $\frac{1}{2}$	1 $\frac{1}{2}$	136 100	19 400	
1976/97	4X	30 000 000	10 $\frac{3}{4}$	1 $\frac{1}{2}$	3 225 000	450 000	
1977/99	4Z	35 000 000	10	2	3 500 000	700 000	
1977/98	5B	50 000 000	10	2	5 000 000	1 000 000	
1980/91	5G	2 000 000	11 $\frac{1}{4}$	—	112 500		2 000 000
1982/2002	5K	50 000 000	14 $\frac{3}{4}$	2	7 375 000	1 000 000	
1983/2003	5L	125 000 000	12 $\frac{7}{8}$	2	16 093 800	2 500 000	
1984/2004	5N	100 000 000	13 $\frac{1}{2}$	2	13 500 000	2 000 000	
1985/95	EU8	99 712 500	11 $\frac{3}{8}$	2	11 431 900	2 016 800	
1985/97	5P	80 000 000	10 $\frac{1}{4}$	—	8 200 000		
1986/2006	5Q	100 000 000	11	2	11 000 000	2 000 000	
1986/2001	EC3	100 000 000	10	2	10 000 000	2 000 000	
1987/2010	5R	100 000 000	9 $\frac{3}{8}$	2	9 375 000	2 000 000	
1987/2001	EC4	75 000 000	9 $\frac{1}{2}$	2	7 125 000	1 500 000	
1987/2007	5S	42 300 000	10 79	2	4 564 200	846 000	
1988/2008	5T	100 000 000	11 $\frac{1}{4}$	2	11 250 000	2 000 000	
1988/97	J5(i)	75 000 000	10 86	—	8 144 900		
1989/2012	5U	125 000 000	11	2	13 750 000	2 500 000	
1989/2014	5V	150 000 000	10 $\frac{1}{8}$	1 $\frac{1}{2}$	15 187 500	2 250 000	
Anticipated 1991/92					8 531 300		
					182 692 500	27 481 600	2 000 000
Payable in United States Dollars:							
1971/96	3Y	25 000 000	8 $\frac{3}{4}$	2	2 635 900	602 500	
1972/97	3Z	35 000 000	8 $\frac{3}{8}$	2	3 532 200	843 500	
1973/98	4M	40 000 000	8 $\frac{1}{2}$	1 $\frac{1}{2}$	4 097 000	723 000	
1975/2000	4S	50 000 000	10 $\frac{7}{8}$	1 $\frac{1}{2}$	6 552 200	903 800	
1976/2001	4W	50 000 000	10 $\frac{1}{2}$	1 $\frac{1}{2}$	6 326 300	903 800	

EXHIBIT XII

ESTIMATED INTEREST AND DEBT RETIREMENT 1991-92 (Cont'd)

Term	Series	Amount Outstanding	Interest Rate	Sinking Fund Rate	Interest	Sinking Fund	Debt Redemption
			%	%	\$	\$	\$
Payable in United States Dollars (Cont'd):							
1976/2001	4Y	50,000,000	10	1½	6,025,000	903,800	
1977/2002	AB	75,000,000	9½	2	8,246,700	1,807,500	
1978/93	J2	22,000,000	9¾	—	2,584,700		8,435,000
1979/94	EU3	42,000,000	10	—	5,061,000		
1981/91	AC	100,000,000	15	2	18,075,000		82,385,700
1982/92	AD	100,000,000	13¾	2	16,719,400	2,410,000	
1983/93	S2 (ii)	45,025,420	13.07	—	7,091,200		
1984/91	EU7	75,000,000	13	—	11,748,800		90,375,000
1986/96	AE	100,000,000	8½	2	10,242,500	2,410,000	
1987/2007	AF	100,000,000	11½	2	14,008,100	2,410,000	
1989/2019	AG	150,000,000	9	1½	16,267,500	2,711,300	
1990/2020	AH	150,000,000	9½	½	17,849,100	903,800	
1990/2020	AJ	150,000,000	10	½	18,075,000	903,800	
Anticipated 1991/92					8,585,600		
					183,723,200	18,436,800	181,195,700
Payable in Japanese Yen:							
1985/95	J4	12,300,000,000	7.4	—	8,197,400		25,650,000
1989/94	J6	4,600,000,000	5.4	—	2,359,800		
1989/94	J7	2,400,000,000	5.4	—	1,231,200		
					11,788,400		25,650,000
Payable in Swiss Francs:							
1985/2000	S3	150,000,000	5¾	—	7,659,400		
1987/2002	S4	150,000,000	5½	—	7,303,100		
1988/2003	S5	150,000,000	5	2	7,125,000	2,471,200	
1990/1999	S6	125,000,000	7½	—	8,906,300		
					30,993,800	2,471,200	
					409,197,900	48,389,600	208,845,700
Canada Pension Plan: (20 Year Term)							
1971/72	3A	17,602,000	6.75- 7.54	—	844,400		
1972/73	3A	19,000,000	7.08- 7.51	2	1,398,400	380,000	
1973/74	3A	21,690,000	7.30- 7.75	2	1,633,300	433,800	
1974/75	3A	25,818,000	7.61- 9.25	2	2,207,200	516,400	
1975/76	3A	29,429,000	8.21- 9.48	2	2,631,800	588,600	
1976/77	3A	30,988,000	8.73- 9.25	2	2,790,000	619,800	
1977/78	3A	33,037,000	8.77- 9.37	2	3,001,000	660,700	
1978/79	3A	36,622,000	9.35-10.16	2	3,499,500	732,400	
1979/80	3A	40,070,000	9.98-12.74	2	4,242,100	801,400	
1980/81	3A	42,645,000	11.61-13.46	2	5,416,800	852,900	

EXHIBIT XII

ESTIMATED INTEREST AND DEBT RETIREMENT 1991-92 (Cont'd)

Term	Series	Amount Outstanding	Interest Rate	Sinking Fund Rate	Interest	Sinking Fund	Debt Redemption
			%	%	\$	\$	\$
Canada Pension Plan (Cont'd):							
1981/82	3A	52,973,000	13.66-17.51	2	8,173,600	1,059,500	
1982/83	3A	52,104,000	12.01-16.53	2	7,645,000	1,042,100	
1983/84	3A	50,738,000	10.92-12.14	2	5,882,300	1,014,800	
1984/85	3A	47,146,000	12.08-14.06	2	6,303,100	942,900	
1985/86	3A	50,570,000	10.58-12.57	2	5,806,900	1,011,400	
1986/87	3A	59,659,000	9.04-10.17	2	5,735,200	1,193,200	
1987/88	3A	43,829,000	9.12-11.07	2	4,280,400	876,600	
1988/89	3A	41,635,000	9.62-10.39	2	4,196,400	832,700	
1989/90	3A	45,188,000	9.15-10.31	2	4,475,100	903,800	
1990/91	3A	40,432,000	9.78-11.33	2	4,858,900	808,600	
Anticipated 1991/1992		40,000,000			1,700,000	—	
					86,721,400	15,271,600	
Government of Canada:							
1971/91	4A	4,401,000	7.14	1	314,200		1,626,900
1972/92	4C	1,899,000	6.90	1	131,000		677,800
1972/92	4D	400,000	6.90	1	27,600		144,300
1973/93	4I	3,661,200	7.28	1	266,500	36,600	
Winter Capital Projects		3,827,200	7.44- 9.40	—	303,400		
CMHC Loans		21,692,400	5.75-14.75	—	1,892,400		430,000
DRIE		30,736,873	5.77- 9.72	—	2,577,500		3,671,200
					5,512,600	36,600	6,550,200
TOTAL					501,431,900	63,697,800	215,395,900

EXCHANGE RATES USED IN CONVERSION

U.S. 1.2050 Cdn.
 Yen 0.0095 Cdn.
 S.F. 0.9500 Cdn.

(i) Series J5 represents a 7.6 billion Japanese Yen issue which has interest and principal repayments swapped into Canadian dollars.

(ii) Series S2 represents a 100 million Swiss Franc issue which has interest and principal repayments swapped into U.S. dollars.

EXHIBIT XIII
DETAILS OF CAPITAL EXPENDITURES
ESTIMATES 1991-92

Activity No.	Details	Gross Expenditure	Related Revenue	Net Expenditure
		\$	\$	\$
CONSOLIDATED FUND SERVICES				
1.3.02	Issues under Guarantee (Statutory)	2,325,000	1,000	2,324,000
TOTAL		2,325,000	1,000	2,324,000
EXECUTIVE COUNCIL				
1.1.03	Government House	220,000	-	220,000
TOTAL		220,000	-	220,000
FINANCE				
1.2.03	Debt Expenses, NLC Building (Statutory)	135,400	-	135,400
2.2.02	Industrial Assistance	-	1,512,000	(1,512,000)
2.2.03	Newfoundland Industrial Development Corporation	-	173,000	(173,000)
TOTAL		135,400	1,685,000	(1,549,600)
WORKS, SERVICES AND TRANSPORTATION				
2.2.06	Highway Depots — Facilities	1,281,000	-	1,281,000
2.2.07	Alterations—Leased Accommodations	495,000	-	495,000
2.3.04	Vehicles and Equipment	5,500,000	300,000	5,200,000
3.1.01	Administrative Support	1,800,000	-	1,800,000
3.1.02	Planning and Research	390,100	-	390,100
3.1.03	Soils and Paving	696,000	-	696,000
3.1.04	Highway Design	1,436,200	-	1,436,200
3.1.05	Pre-Engineering	624,000	-	624,000
3.1.06	Project Management and Design	1,737,200	-	1,737,200
3.2.01	Improvement and Construction — Roads	11,750,000	-	11,750,000
3.2.02	Road and Bridge Rehabilitation	10,500,000	-	10,500,000
3.2.03	Bridges and Causeways	3,250,000	-	3,250,000
3.2.04	Highways — Transport Canada — ERDA	37,202,600	24,821,800	12,380,800
3.2.05	Highways — Transportation Initiative	31,000,000	31,000,000	-
3.2.06	Regional Roads — Transportation Initiative	10,000,000	10,000,000	-
3.2.07	Bridges — Labrador Agreement	2,000,000	1,400,000	600,000
3.2.08	Highway Safety Structures	50,000	-	50,000
3.2.09	Land Acquisition	5,000,000	-	5,000,000
3.3.01	Alterations to Existing Facilities	9,547,000	75,000	9,472,000
3.3.02	Development of New Facilities	550,000	-	550,000
3.3.03	Improvements to Land and Property	2,267,000	-	2,267,000
4.2.03	Air Strips	1,580,000	1,580,000	-
4.3.04	Ferry Terminals	250,000	-	250,000
4.3.05	Ferry Vessels	714,000	-	714,000
4.4.04	Hangar Facilities	81,000	-	81,000
5.2.03	Realty Services	132,500	80,000	52,500
5.3.02	Park Development — C.A. Pippy Park Commission	400,000	-	400,000
TOTAL		140,233,600	69,256,800	70,976,800

EXHIBIT XIII
DETAILS OF CAPITAL EXPENDITURES (Cont'd)
ESTIMATES 1991-92

Activity No.	Details	Gross Expenditure \$	Related Revenue \$	Net Expenditure \$
DEVELOPMENT				
2.1.07	Marystown Shipyard Facility Enhancement — Offshore Fund	31,500,000	23,625,000	7,875,000
2.2.03	Ocean Industry Development	950,000	-	950,000
2.2.04	Hibernia GBS Site Construction — Offshore Fund	53,890,000	40,418,000	13,472,000
2.5.03	Loan Fund — Enterprise Development	16,000,000	4,400,000	11,600,000
2.5.04	Savings Bonds Redemptions — Enterprise Development	4,000,000	-	4,000,000
4.3.02	Tourist Facilities	740,000	-	740,000
4.3.03	Travel Generators — Marble Mountain	3,600,000	1,500,000	2,100,000
TOTAL		110,680,000	69,943,000	40,737,000
ENVIRONMENT AND LANDS				
3.2.02	Cottage Land Development	200,000	200,000	-
4.1.06	Park Planning and Development	745,000	350,000	395,000
4.1.07	National Parks	5,000	2,500	2,500
4.2.07	Salmonier Nature Park	40,000	-	40,000
4.2.08	Wildlife Facilities	63,000	-	63,000
TOTAL		1,053,000	552,500	500,500
FISHERIES				
2.2.02	Administration — Planning — Construction of Fishing Facilities	20,000	-	20,000
2.2.03	Marine Service Centres	519,000	-	519,000
2.2.04	Fishermen's Facilities	586,000	-	586,000
2.2.05	Fisheries Access Roads	60,000	-	60,000
2.2.07	Community Projects	200,000	-	200,000
2.2.08	Fisheries Initiatives — ERDA	4,600,000	2,510,000	2,090,000
2.2.09	Labrador Development Agreement	600,000	420,000	180,000
3.1.07	Fishing Vessels	2,224,000	-	2,224,000
3.1.08	Inshore Fishery Support	-	1,100,000	(1,100,000)
5.1.03	Incentives and Assistance — Fisheries Loan Board	6,000,000	5,500,000	500,000
5.1.04	Fishing Boat Bounties — Fisheries Loan Board	2,200,000	-	2,200,000
TOTAL		17,009,000	9,530,000	7,479,000
FORESTRY AND AGRICULTURE				
2.4.05	Forest Protection Facilities	930,000	630,000	300,000
2.6.02	Resource Roads Construction	1,982,000	154,000	1,828,000
2.8.05	Forestry Nursery Facilities	275,000	70,000	205,000
3.1.05	Land Development	500,000	-	500,000
3.1.06	Livestock Feed Initiatives — ALFI	622,000	516,000	106,000
3.1.07	Agri-Food Initiatives	1,622,000	1,014,000	608,000
3.3.07	Farm Development Loan Board	2,240,000	2,240,000	-
3.4.02	Construction and Alterations — Newfoundland Farm Products Corporation	200,000	-	200,000
3.5.10	Veterinary Facilities	25,000	-	25,000
TOTAL		8,396,000	4,624,000	3,772,000

EXHIBIT XIII
DETAILS OF CAPITAL EXPENDITURES (Cont'd)
ESTIMATES 1991-92

Activity No.	Details	Gross Expenditure	Related Revenue	Net Expenditure
		\$	\$	\$
MINES AND ENERGY				
3.2.03	Core Storage Buildings	49,000	-	49,000
TOTAL		49,000	-	49,000
EDUCATION				
2.1.08	Building and Equipping Schools	28,500,000	-	28,500,000
3.1.09	Skills Training Projects — Offshore Fund	1,200,000	900,000	300,000
3.2.03	Furnishings and Equipment — Memorial University	4,000,000	-	4,000,000
3.2.04	Sir Wilfred Grenfell College	224,300	-	224,300
3.2.07	Various Buildings — Memorial University	4,000,000	-	4,000,000
3.3.02	Furnishings and Equipment — Institutes and Community Colleges	2,000,000	-	2,000,000
3.3.03	Institute and College Facilities	6,869,300	700,000	6,169,300
3.3.04	Petroleum Technology Training — Offshore Fund	4,950,000	3,712,500	1,237,500
3.3.05	Survival Centre — Offshore Fund	4,946,000	3,710,000	1,236,000
3.3.06	Simulator Training Centre — Offshore Fund	3,500,000	2,625,000	875,000
TOTAL		60,189,600	11,647,500	48,542,100
HEALTH				
4.4.01	Hospital Equipment	8,200,000	-	8,200,000
4.4.02	Community Health Centres	4,798,000	1,050,000	3,748,000
4.4.03	Hospital Facilities	8,524,400	195,000	8,329,400
4.4.04	Newfoundland Cancer Treatment & Research Foundation	3,000,000	1,000,000	2,000,000
4.5.01	Furnishings and Equipment — Long Term Special Care Facilities	1,000,000	-	1,000,000
4.5.02	Long Term Special Care Facilities	8,745,600	-	8,745,600
TOTAL		34,268,000	2,245,000	32,023,000
JUSTICE				
3.1.06	Court Facilities	1,765,000	-	1,765,000
4.1.08	Police Protection Facilities	27,500	-	27,500
4.2.07	Adult Correction Facilities	492,000	-	492,000
TOTAL		2,284,500	-	2,284,500
MUNICIPAL AND PROVINCIAL AFFAIRS				
2.3.03	St. John's Regional Water and Sewer Servicing	100,000	-	100,000
2.3.04	Community Water Services	1,075,000	-	1,075,000
2.3.05	Waste Management Facilities	432,000	-	432,000
2.3.06	Industrial Water Systems	541,500	-	541,000
2.3.07	Water and Sewer Servicing — Coastal Labrador	12,054,600	6,781,900	5,272,700
3.2.06	Municipal Councils	155,000	-	155,000
3.3.02	Road Construction and Paving — Debt Principal	7,450,000	-	7,450,000
3.3.03	Water and Sewer Systems — Debt Principal	11,750,000	-	11,750,000
4.1.02	Disaster Assistance for Infrastructure	5,000	-	5,000
4.1.03	Joint Emergency Preparedness Projects	350,000	350,000	-
4.2.04	Firefighting Vehicles and Apparatus	1,100,000	25,000	1,075,000

EXHIBIT XIII

DETAILS OF CAPITAL EXPENDITURES (Cont'd)

ESTIMATES 1991-92

Activity No.	Details	Gross Expenditure	Related Revenue	Net Expenditure
		\$	\$	\$
MUNICIPAL AND PROVINCIAL AFFAIRS (Cont'd)				
4.2.05	Fire Protection Facilities	30,000	-	30,000
5.1.04	Community Sports Facilities	1,743,500	-	1,743,500
6.1.04	Support for Cultural Activities	120,000	-	120,000
6.1.05	Newfoundland Public Libraries Board	300,000	-	300,000
6.1.06	Arts and Culture Facilities	300,000	-	300,000
6.3.03	Historic Sites Development	40,000	10,000	30,000
6.4.02	Historic Resource Facilities	80,000	-	80,000
TOTAL		37,626,100	7,166,900	30,459,200
SOCIAL SERVICES				
3.2.05	Youth Correction Facilities	3,300,000	-	3,300,000
5.4.02	Support to Family-Related Organizations	200,000	-	200,000
TOTAL		3,500,000	-	3,500,000
TOTAL: CAPITAL ACCOUNT EXPENDITURES		417,969,200	176,651,700	241,317,500